

Margins surprise keeps share buoyant

Transport Corporation of India (TCI) reported 14% revenue growth. The freight (~47% of standalone revenues) and shipping division (16%) grew 10%, 46%, respectively whereas the supply chain division (38%) grew mere 9%. EBITDA margins improved 110 bps to 11.1, mainly due to lower operating cost to sales ratio (79.1% vs. 79.9% in Q4FY18). Subsequently, the resultant EBITDA and PAT grew 28% and 33%, respectively. The margins came as a surprise, keeping in view the unfavourable product mix (lower Supply Chain growth). The management expects margins to remain at elevated levels in FY20 although it is cautious on growth in logistics industry in Q1 (expects recovery from Q2). Industrial auto segment (CV, earth moving equipment) is expected to provide a push to the SCS segment (triggers include BS6 pre-buy in the CV segment).

With SCS staying subdued; freight, shipping segment deliver

TCIs' freight segment grew 17% in FY19, a sharp shift from earlier 10-15% growth seen in the segment. Similarly, seaways has grown 40% during the year, resulting in its share in revenues to 13% from earlier 8-10%. SCS showed deceleration in growth (grew mere 12% in FY19 vs expectation of 20%), mainly due to slowdown in the auto sector (~80% of the SCS pie). However, with the decline in auto inventory levels (via normalised growth) and pickup in CV, earth moving segments, the business is expected to see some revival in fortunes. We expect a blended revenue growth at 15% CAGR in FY19-21.

Regulations in logistics space to help pan India players

The implementation of GST and E-Way bill, along with increased permit of 20-25% axle load was intended to create a level playing field for organised, unorganised logistics players. Unorganised players are expected to become less competitive owing to increased cost of compliance enabling opportunity for larger organised players to capture higher market share on a sustained basis.

Valuation and Outlook

The company continues to build capacity in its SCS and shipping division (₹ 200-250 crore earmarked for FY20). We believe utilisation of capacity in the medium term, will push TCI towards blended margins of ~10% with a RoCE of ~17%. With multi-modal capabilities, we believe TCI has developed a strong moat around its business thereby delivering sustainable growth rates. On an SOTP basis, we value the company at ₹ 360 per share with a **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market Cap. (₹ cr)	2105.9
Total Debt (FY19) (₹ Cr)	414.2
Cash and Investment (FY19) (₹)	15.5
EV (₹ Crore)	2504.5
52 week H/L	376/231
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

Key Highlights

- Maintain Buy
- Industrial Auto segment (CV, Earth moving equipment's) is expects to provide push to the SCS segment (triggers include BS6 pre-buy in the CV segment)
- The company continues to build capacity in its SCS and shipping division
- We expect revenue, EBITDA, PAT CAGR of 15%, 21%, 26%, respectively, in FY19-21E

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Key Financial Summary

(Year-end March)	FY16	FY17	FY18	FY19E	FY20E	FY21E	CAGR
Revenues (₹ crore)	1,727.0	1,942.5	2,349.9	2,753.7	3,166.5	3,660.5	17.2
EBITDA (₹ crore)	129.4	162.0	216.5	249.5	300.8	366.1	22.6
Adjusted Net Profit (₹ crore)	56.5	82.0	123.2	144.4	178.0	229.5	29.3
EPS (₹)	7.4	10.7	16.1	18.8	23.2	29.9	29.3
P/E (x)	27.1	28.7	19.2	16.4	13.3	10.3	
Price / Book (x)	4.1	3.7	3.1	2.7	2.2	1.9	
EV/EBITDA (x)	19.9	16.2	12.2	10.7	8.7	6.9	
RoCE (%)	9.2	10.7	13.4	14.2	15.2	17.3	
RoNW (%)	15.2	12.8	16.3	16.3	16.9	18.0	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	691.8	700.8	605.3	14.3	662.5	4.4	Robust YoY growth seen in freight (10%), SCS (9%) and seaways divisions (46%)
Operating Expenses	547.5	571.2	483.3	13.3	543.8	0.7	
Employee Expenses	33.8	36.4	33.0	2.4	34.0	-0.4	
Administrative & Oth Expenses	33.4	31.5	28.5	17.3	24.2	38.2	
Total Expense	614.8	639.1	544.8	12.8	602.0	2.1	
EBITDA	77.1	61.7	60.4	27.5	60.5	27.4	
EBITDA Margin (%)	11.1	8.8	10.0	115 bps	9.1	201 bps	YoY higher margins mainly due to higher gross margins (21.9% vs. 20.1% in Q4FY18), in spite of subdued growth in
Depreciation	18.9	21.2	16.2	16.6	20.5	-7.7	
Interest	9.1	9.5	6.8	33.4	10.2	-10.9	
Other Income	4.6	8.1	9.3	-50.6	8.1	-43.8	
Exceptional Gain/Loss	0.0	0.0	-4.0	0.0	0.0	0.0	
PBT	53.7	39.1	42.7	25.7	38.0	41.4	
Total Tax	10.1	8.2	10.1	0.3	8.0	25.5	
PAT	43.6	30.9	32.7	33.6	30.0	45.6	In sync with EBITDA
Key Metrics	Q4FY19	Q4FY19E	Q4FY18	YoY	Q3FY19	QoQ	
Freight Division	327.0	328.3	298.4	9.6	311.2	5.1	Mostly volume led growth (mainly from SMEs)
Supply Chain Solutions	265.4	268.3	243.9	8.8	260.8	1.8	
Seaways	108.8	107.9	74.4	46.2	100.2	8.5	Ramping up of volumes in additional ship resulting in steep growth YoY

Source: Company, ICICI Direct Research

Exhibit 2: Segmental performance

Key Metrics	Q4FY19	Q4FY19E	Q4FY18	YoY	Q3FY19	QoQ	
Freight Division	327.0	328.3	298.4	9.6	311.2	5.1	Mostly volume led growth (mainly from SMEs)
Supply Chain Solutions	265.4	268.3	243.9	8.8	260.8	1.8	
Seaways	108.8	107.9	74.4	46.2	100.2	8.5	Ramping up of volumes in additional ship resulting in steep growth YoY

Source: Company, ICICI Direct Research

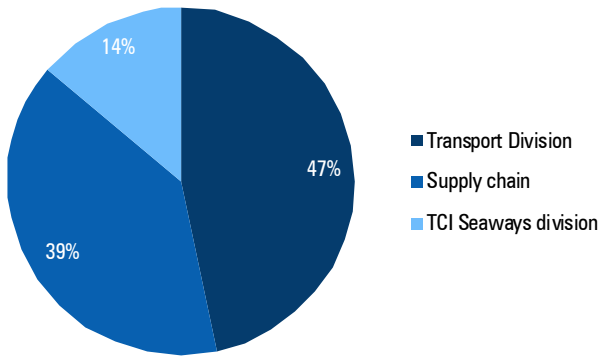
Exhibit 3: Change in estimates

(₹ Crore)	FY20E					FY21E			Comments
	FY18	FY19E	Old	New	% Change	Old	New	% Change	
Revenue	2,349.9	2,753.7	3,219.8	3,166.5	-1.7	3,722.9	3,660.5	-1.7	
EBITDA	216.5	249.5	286.6	300.8	5.0	357.4	366.1	2.4	
EBITDA Margin (%)	9.2	9.1	8.9	9.5	60 bps	9.6	10.0	40 bps	
PAT	123.2	144.4	178.3	178.0	-0.2	243.2	229.5	-5.6	
EPS (₹)	16.1	18.8	23.3	23.2	-0.3	31.7	29.9	-5.5	PAT lower in spite of a better operational performance, mainly due to greater usage of internal accruals (higher yield) for capex than expected, leading to lower other income

Source: Company, ICICI Direct Research

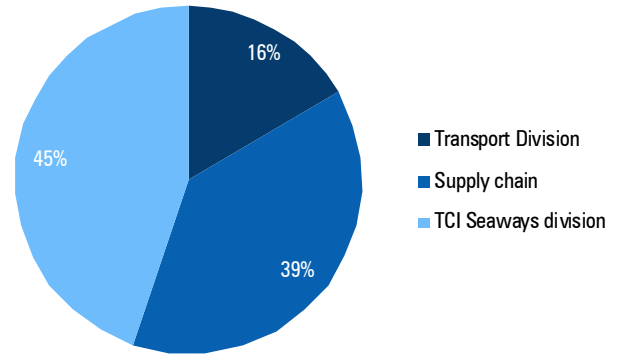
Key Metrics

Exhibit 4: Segmental revenues (standalone)



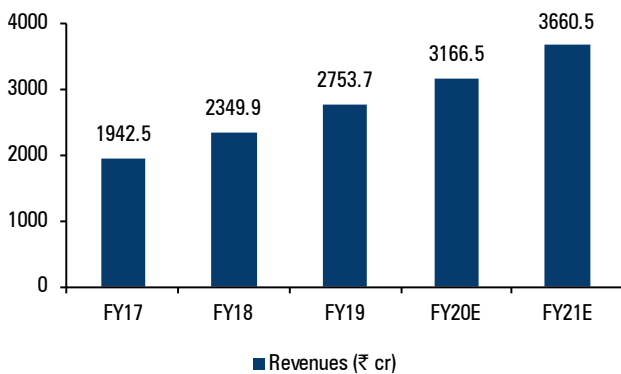
Source: ICICI Direct Research, Company

Exhibit 5: Segmental EBITDA (standalone)



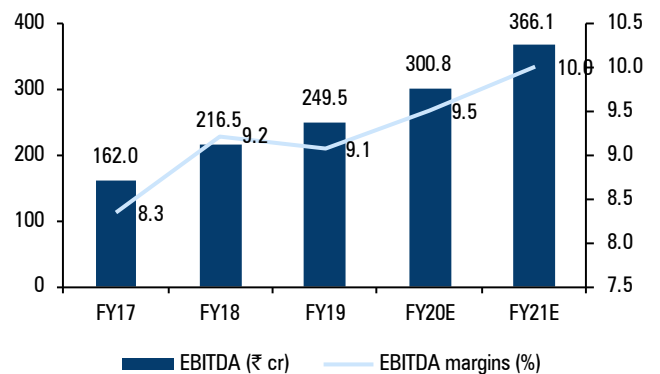
Source: ICICI Direct Research, Company

Exhibit 6: Revenue likely to grow at 15% (FY19-21) CAGR



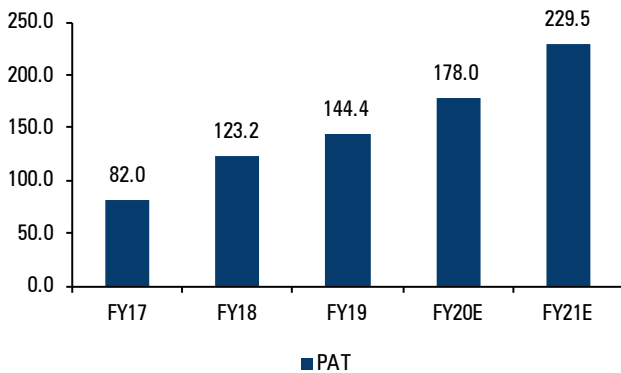
Source: ICICI Direct Research, Company

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



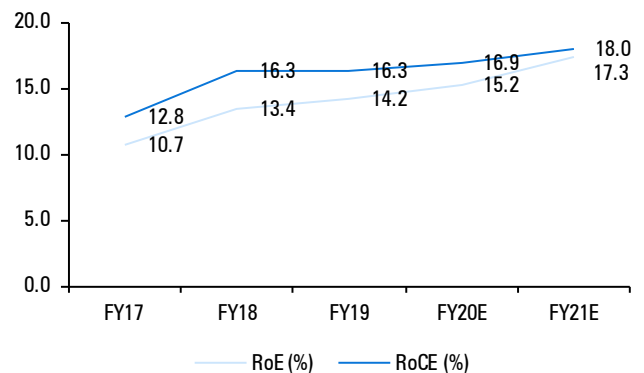
Source: ICICI Direct Research, Company

Exhibit 8: PAT expected to grow at 26% CAGR (FY19-21)



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios



Source: Company, ICICI Direct Research

Exhibit 10: Valuation ratios

	Sales	Sales	EPS	EPS	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	Growth (%)	(₹)	Growth (%)	(x)	(x)	(%)	(%)
FY17	1942.5	12.5	10.7	43.9	35.5	16.2	12.8	10.7
FY18	2349.9	21.0	16.1	50.2	23.5	12.2	16.3	13.4
FY19P	2753.7	17.2	18.8	17.2	19.7	10.7	16.3	14.2
FY20E	3166.5	15.0	23.2	23.3	15.8	8.7	16.9	15.2
FY21E	3660.5	15.6	29.9	28.9	11.9	6.9	18.0	17.3

Source: Company, ICICI Direct Research

Valuation and Outlook

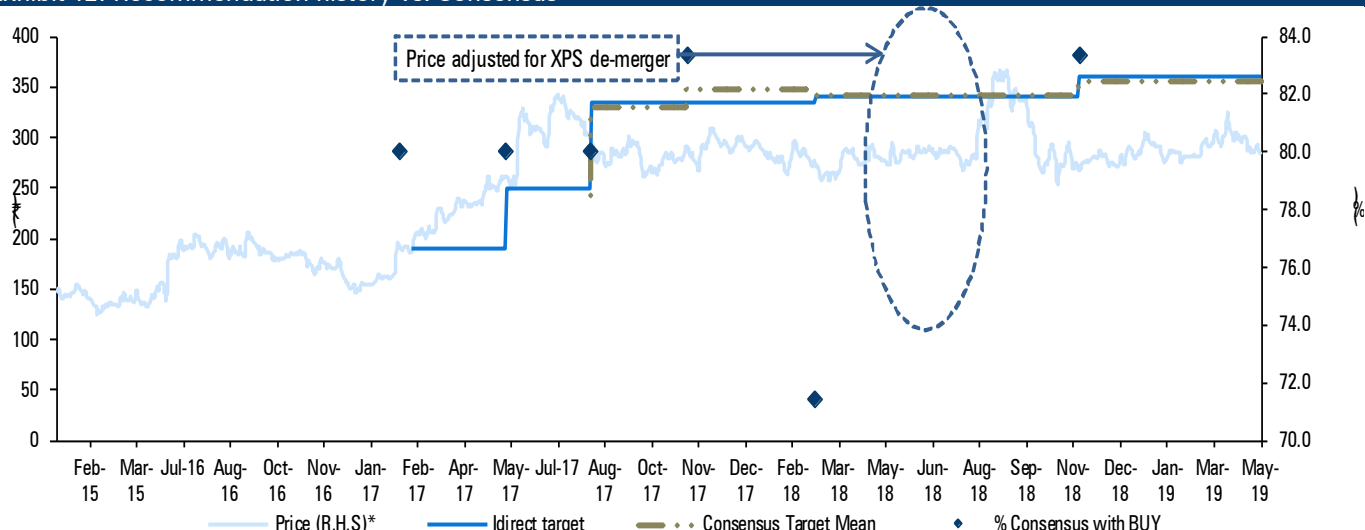
The company continues to build capacity in its SCS and shipping division (₹ 200-250 crore earmarked for FY20). We believe utilisation of the capacity in the medium term, will push TCI towards blended margins of ~10% with a RoCE of ~17%. Blended revenue growth came strong at 17% (on a high base of 21% revenue growth) indicating a head start for the business in an increasing digitised environment (GST, E-Way bill). With multi-modal capabilities, we believe TCI has developed a strong moat around its business thereby delivering sustainable growth rates. On an SOTP basis, we value the company at ₹ 360 per share with a **BUY** recommendation on the stock.

Exhibit 11: SOTP Valuation

Segment	Standalone EBITDA (FY21E) ₹ crore	EV (x)	EV (₹ crore)
Freight	63.7	5	344
Supply Chain	148.2	8	1230
Seaways	193.4	6	1218
Enterprise Value			2793
Net Debt (FY21E)			131
Market Value (Ex-TCI-Concor, Transystem)			2661
Subsidiary	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:TCI-Concor (51% stake)	128	0.4	51
Joint Venture	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:Transystem (49% stake)	344	0.4	137
Holding company discount (50%)			94
Target Market Value			2756
No of Shares			7.7
Per Share Value			360

Source: ICICI Direct Research

Exhibit 12: Recommendation history vs. Consensus



Source: ICICI Direct Research, Reuters

Exhibit 13: Shareholders

Rank	Investor Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Bhoruka Finance Corporation of India, Ltd	31-Mar-19	0.21	15.9
2	Bhoruka International Pvt. Ltd.	31-Mar-19	0.14	10.6
3	TCI Group	31-Mar-19	0.08	6.4
4	Agarwal (Dharpal P.)	31-Mar-19	0.08	5.8
5	Canara Robeco Asset Management Com	31-Mar-19	0.04	2.8
6	IDFC Asset Management Company Privat	31-Mar-19	0.04	2.7
7	Agarwal (Dharpal) HUF	31-Mar-19	0.03	2.0
8	Arcee Holding, Ltd.	31-Mar-19	0.03	2.0
9	Agarwal (Vineet)	31-Mar-19	0.03	2.0
10	Agarwal (Priyanka)	31-Mar-19	0.03	1.9

Source: ICICI Direct Research, Reuters, Company

Exhibit 14: Shareholding Pattern

(in %)	Jun-18	Aug-18	Dec-18	Mar-19
Promoter	67.0	66.9	66.9	66.9
FII	2.4	1.9	1.9	1.9
DII	7.8	7.5	8.1	8.4
Others	22.8	23.7	23.1	22.8

Source: ICICI Direct Research, Reuters, Company

Exhibit 15: Recent Activity

Buy			Sell		
Investor Name	Value	Shares	Investor Name	Value	Shares
Agarwal (Suresh Kumar)	7.51	1.81	Mellon Investments Corporation	-0.34	-0.09
AGARWAL (Madhulika)	4.91	1.05	Sethi (Jasjit Singh)	-0.08	-0.02
IDFC Asset Management Company Private Limited	1.10	0.23	Canara Robeco Asset Management Company Ltd.	-0.07	-0.01
Sundaram Asset Management Company Limited	0.22	0.05	Bessemer Trust Company, N.A. (US)	-0.01	0.00
Tiwari (Ashish Kumar)	0.11	0.03			

Source: ICICI Direct Research, Reuters

Exhibit 16: Profit & Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating income	2,349.9	2,753.7	3,166.5	3,660.5
Growth (%)	21.0	17.2	15.0	15.6
Operating expense	1,906.8	2,251.5	2,583.9	2,979.7
Manpower Cost	124.5	140.2	155.2	175.7
Admin & other expense	102.1	112.4	126.7	139.1
Total Expense	2,133.4	2,504.1	2,865.7	3,294.5
EBITDA	216.5	249.5	300.8	366.1
Growth (%)	33.6	15.3	20.6	21.7
Depreciation	68.7	77.4	95.7	108.4
EBIT	147.9	172.1	205.2	257.6
Interest	32.2	37.4	31.8	25.0
Other Income	14.4	19.5	20.6	23.8
PBT	130.1	154.2	193.9	256.4
Growth (%)	50.8	18.6	25.8	32.2
Tax	28.7	33.3	42.7	56.4
Reported PAT	101.4	120.9	151.3	200.0
Growth (%)	51.1	19.2	25.2	32.2
Share of Profit from JV	22.4	25.1	27.6	30.4
Minority Interest	0.6	0.9	0.9	0.9
Adjusted PAT	123.2	145.1	178.0	229.5
EPS	16.1	18.8	23.2	29.9

Source: ICICI Direct Research

Exhibit 17: Cash flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	123.2	144.4	178.0	229.5
Add: Depreciation	68.7	77.4	95.7	108.4
Add: Interest Expense	32.2	37.4	31.8	25.0
Cash Profit	224.0	259.2	305.4	362.9
Increase/(Decrease) in CL	-91.5	-130.9	-78.8	-96.2
(Increase)/Decrease in CA	32.2	73.9	14.8	16.4
Others	7.2	-4.5	0.0	0.0
CF from Operating Activities	171.9	197.7	241.4	283.1
Purchase of Fixed Assets	-152.3	-126.1	-150.2	-150.2
(Inc)/Dec in Investments	-17.9	-5.1	-11.7	-12.9
Others	24.8	-37.4	0.8	0.8
CF from Investing Activities	-145.4	-168.6	-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	-14.7	-9.2	-9.2	-9.2
CF from financing activities	-31.1	-27.7	-81.0	-114.2
Change in cash Eq.	-4.6	1.4	-0.7	6.6
Op. Cash and cash Eq.	18.7	14.1	15.5	14.8
Cl. Cash and cash Eq.	14.1	15.5	14.8	21.4

Source: ICICI Direct Research

Exhibit 18: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Source of Funds				
Equity Capital	15.3	15.3	15.3	15.3
Reserves & Surplus	746.5	876.6	1,045.4	1,265.7
Shareholder's Fund	761.8	892.0	1,060.7	1,281.0
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	1481.9	1623.0
Application of Funds				
Gross Block	796.9	975.3	1,125.3	1,275.3
Less: Acc. Depreciation	171.1	248.5	344.2	452.6
Net Block	625.8	726.8	781.1	822.7
Capital WIP	56.3	4.0	4.2	4.4
Non-Current Investments	104.4	116.8	128.5	141.4
Long Term Loans &	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	6.1	7.0
Debtor	424.9	515.1	589.9	682.0
Cash	14.1	15.5	14.8	21.4
Loan & Advance, Other CA	119.6	158.3	161.4	164.7
Current Liabilities	189.7	263.6	278.4	294.8
Trade Payables	59.7	67.4	78.1	90.3
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	1,352.4	1,481.9	1,623.0

Source: ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
Book Value	99.4	116.4	138.4	167.1
Cash per share	55.4	67.2	77.0	89.0
EPS	16.1	18.9	23.2	29.9
Cash EPS	22.2	25.9	32.2	40.2
DPS	1.1	1.6	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	9.2	9.1	9.5	10.0
PAT Margin (%)	4.3	4.4	4.8	5.5
Fixed Asset Turnover (x)	3.8	3.8	4.1	4.4
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	16.9	18.0
RoCE	13.4	14.2	15.2	17.3
RoIC	13.6	13.7	14.8	16.9
Valuation Ratios (x)				
P/E	19.3	16.5	13.4	10.4
Price to Book Value	3.1	2.7	2.2	1.9
EV/EBITDA	12.2	10.7	8.7	6.9
EV/Sales	1.1	1.0	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	6.5	10.3
Debt to EBITDA (x)	1.8	1.7	1.2	0.8
Current Ratio	2.0	2.3	2.1	1.8
Quick ratio	1.3	1.3	1.2	1.0

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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