Transport Corporation of India Ltd.---NOT RATED

Company visit note

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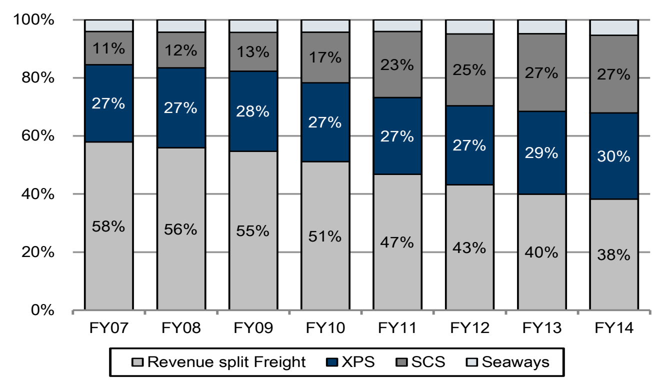
- We recently met with TCIL's management. TCIL is India's leading logistics service provider. It operates in three key segments—freight transportation, express cargo and supply chain solutions.
- The share of low margin freight transportation business has come down from 58% in FY07 of revenues to 38% now. The company expects the share of other businesses (less competitive due to entry barriers) to continue to inch up, and freight to decline to 33%.
- Management sees huge opportunity in the logistics sector on low penetration of the organised sector, economic revival and opportunities from the implementation of GST, DFC and DMIC. It expects top-line growth to pick up from low single digits in the last three years to >15% going forward.
- Margins in the transportation business had significantly fallen in the downturn on account of the inability of freight operators to pass on costs. With freight rates picking up and a continued shift towards higher-margin divisions (SCS, XPS), management expects margins to improve from current levels. TCI trades at ~21x FY14 earnings and ~14x FY16 consensus earnings.

Figure 1: Share of high-margin XPS and SCS is increasing



Source: Company data

TCIL is India's leading multimodal transport surface and supply chain solutions provider. It operates 7,000 trucks (of which 1,200 are self-owned) and manages ~10 mn square feet of ware-housing space. It has three key business verticals:

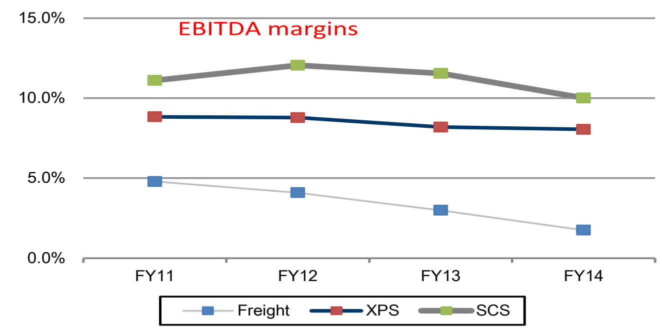
TCI Freight: Starting over 50 years ago as a single truck operator, it is now India's leading road transport entity, transporting all kinds of cargo. Growth in this segment has been flat for the last three years, and management expects growth to pick up to 5-8% in FY15.

TCI XPS (express cargo): Provides door-to-door time definite cargo and courier services, primarily catering to the B2B segment. Given the slowdown in the economy, growth in this segment has slowed to 8-10% in the last 3 years; however, with e-commerce picking up, management expects this to increase to 15-20% going forward.

TCI SCS (supply chain solutions): Provides supply chain solutions across industries and services, right from conceptualisation and design of logistics to actual implementation. Auto is by far the key industry constituting ~80% of revenues. It has been the fastest growing segment for TCI in recent years and with the outlook for auto volumes improving in the last few months, the company claims it is seeing good traction in this business and is confident of a 15-20% growth going ahead.

Others: The seaways division has a fleet of ships for transporting container and bulk cargo from islands and ports. The global division provides logistics solutions across boundaries all over the world. It also has a JV with CONCOR to provide bulk multi-modal solutions by rail and road, and it plans to extend the same to sea going forward.

Figure 2: Margins in core freight business had collapsed in the downturn



Source: Company data

Higher share of SCS, XPS and bottoming out of freight to drive margins: Margins on XPS, SCS and shipping are much higher than the core freight transportation business. Higher share of these businesses led to the company increasing its margins even in the downturn, which had led to a collapse in freight margins. Going forward, the company expects shares of these high-margin businesses to continue to go up. After a gap of three years, industry has also managed to take up freight rates, which should drive freight margins.

Figure 3: TCIL historical financials (consolidated)

(Rs mn)	FY10	FY11	FY12	FY13	FY14
Net Sales	15,215	18,513	19,538	21,305	22,265
Growth (% YoY)	12.6%	21.7%	5.5%	9.0%	4.5%
EBITDA	1,123	1,403	1,578	1,753	1,696
EBITDA margin	7.4%	7.6%	8.1%	8.2%	7.6%
PAT	417	547	595	695	716
Growth (% YoY)	25.3%	31.2%	8.8%	16.8%	3.0%
EPS	5.6	7.4	8.0	9.3	9.5
RoE	12.5%	16.8%	15.7%	15.9%	14.6%

Source: Capitalline

Setting up for faster growth. The company expects to significantly increase its capex outlay for the year FY14-15 to Rs2,500 mn (~Rs500 mn in FY14) in order to increase capacity—the purchase of new trucks, new cargo ships and also create new hub centres (warehouse space).

Huge opportunity in logistics space. Management reckons key drivers for TCI would be: (1) Economic revival; (2) strengthening investment in infrastructure – DFC (dedicated freight corridor) and DMIC (Delhi Mumbai industrial corridor); (3) Increasing usage of third-party logistics; (4) Higher prominence of e-commerce sector, giving thrust to e-tailing; (5) Retail FDI, which will increase productivity and efficiency in distribution network; and (6) GST implementation.

Companies Mentioned *(Price as of 05-Sep-2014)*

T'port Cor India (TCIL.BO, Rs216.4)

Disclosure Appendix

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