

Transport Corporation of India (TRACOR)

₹ 52

WHAT'S CHANGED...

PRICE TARGET.....	Changed from ₹ 73 to ₹ 60
EPS (FY14E).....	Changed from ₹ 10.2 to ₹9.6
EPS (FY15E).....	Changed from ₹ 10.5 to ₹9.9
RATING.....	Unchanged

Muted topline pressurises growth...

Transport Corporation of India (TCI) reported flattish standalone numbers for Q1FY14 with revenue growing 4.4% to ₹ 477.7 crore YoY. However, it declined ~10% QoQ. On a segmental basis, the freight division continues to be the largest contributor to revenues (39%), followed by express division and supply chain at 29% and 25%, respectively. EBITDA for the quarter declined 9.2% YoY and 16% QoQ to ₹ 33.6 crore whereas the EBITDA margin contracted 49 bps QoQ and 106 bps YoY to 7% largely on account of a fuel hike. On the EBIT front, freight continues to be a major drag contributing a mere 6%. However, express and supply chain divisions contribute 50% and 30%, respectively. On a segmental basis, margin for Q1FY14 in the freight division stood at 0.7% whereas supply chain and express division were at 5% and 7%, respectively. PAT for the quarter remained flattish and largely in-line with our estimate of ₹ 14 crore. Going ahead, we believe revenue and margin contribution by express and supply segment will continue to remain robust. However, quality of debtors remains a major concern, stressing the working capital.

Freight segment suffers; SCM and express decline on lean period

Deteriorating economic conditions coupled with a fuel price hike led to a contraction of the EBIT margin by 169 bps YoY for the freight segment. As the segment continues to reel under margin pressure, quality of debtors in the segment is a source of major concern leading to selective marketing by TCI. On account of lower cargo offtake, the EBIT for the express and SCM segments posted a decline of 6% and 40%, respectively. However, going ahead, we believe the segment will post better results for the year due to expected favourable H2FY14 period.

Lower volume, stressed margin suppress earnings

Decline in volumes together with margin pressure in the freight segment (highest revenue contributor) reinforce a worsening scenario plaguing the industry. Also, newer offshoots like SCM and express also recorded a decline in margin both QoQ and YoY. Consequently, we revise our FY15 EPS estimate downward by 6% to ₹ 9.9 and assign a multiple of 6x FY15E EPS to arrive a target price of ₹ 60. We maintain our **BUY** rating.

Exhibit 1: Financial Performance

(₹ cr)	Q1FY14	Q1FY14E	Q1FY13	Q4FY13	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	477.7	561.4	457.4	532.1	4.4	-10.2
EBITDA	33.6	40.4	37.0	40.1	-9.2	-16.1
EBITDA Margin (%)	7.0	7.2	8.1	7.5	(106bps)	(49bps)
Depreciation	10.3	11.3	9.9	11.3	4.8	-8.8
Interest	7.3	8.2	8.6	7.5	-	-
Reported PAT	14.0	14.8	13.6	13.9	3.2	1.0
EPS (₹)	1.9	2.0	1.9	1.9	2.9	0.7

Source: Company, ICICIdirect.com Research

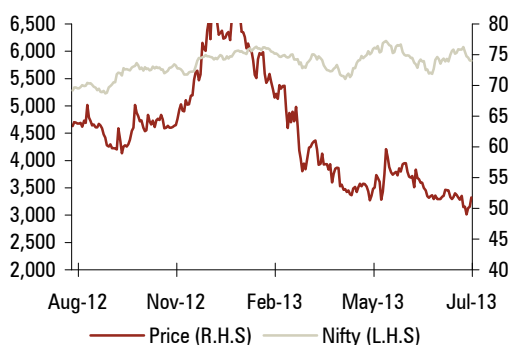
Rating matrix	
Rating	: Buy
Target	: ₹ 60
Target Period	: 12-15 months
Potential Upside	: 15%

Key Financials				
(₹ cr)	FY12	FY13E	FY14E	FY15E
Net Sales	1953.7	2132.1	2249.9	2398.6
EBITDA	156.4	174.8	180.0	195.5
Net Profit	59.5	69.5	69.6	71.9
EPS	8.2	9.6	9.6	9.9

Valuation summary				
	FY12	FY13E	FY14E	FY15E
PE (x)	6.2	5.3	5.3	5.2
Target PE (x)	7.3	6.3	6.3	6.1
EV to EBITDA(x)	4.1	3.8	3.8	3.6
Price to book (x)	0.1	0.1	0.1	0.1
RoNW (%)	15.7	16.0	14.2	13.1
RoCE (%)	24.3	24.0	21.3	20.0

Stock data	
Market Cap. (₹ cr)	360
Debt (FY12) (₹ cr)	299
Cash (FY12) (₹ cr)	31
EV (₹ cr)	629
52 week H/L (₹ cr)	89 / 47
Equity capital (₹ cr)	14.4
Face value (₹)	2
DII Holding (%)	0.1
FII Holding (%)	7.1

Price movement



Analyst's name

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Exhibit 2: Assumption

	FY12	FY13E	FY14E	FY15E
Freight (% of revenues)	40%	36%	35%	33%
YoY revenue growth	-3%	1%	2%	2%
Supply Chain ((% of revenues)	29%	31%	32%	34%
YoY revenue growth	48%	17%	10%	13%
XPS (% of revenues)	25%	25%	26%	26%
YoY revenue growth	8%	12%	8%	10%

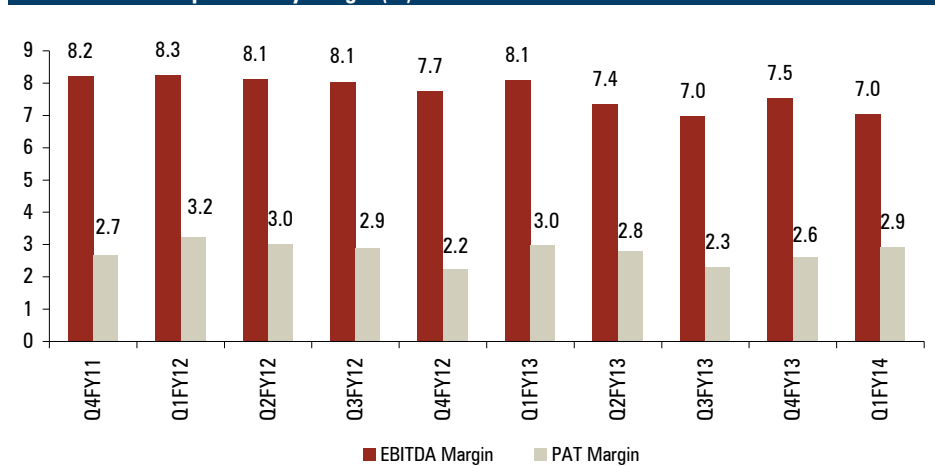
Source: Company, ICICIdirect.com Research

Exhibit 3: Segmental performance in Q1FY14

	Freight	XPS	SCS	Seaways	Wind Power	Global
Net Sales (₹ Cr)	187.6	141.3	120.2	27.4	2.7	0.0
% to Total Sales	39.0	29.3	25.0	5.7	0.6	0.0
YoY Growth (%)	4.9	9.6	-3.5	14.6	17.5	0.0
QoQ Growth (%)	-13.7	-3.6	-15.2	3.7	192.4	0.0
PBIT (Rs Cr)	1.2	9.9	6.0	4.4	1.7	0.0
YoY Growth (%)	-70.6	-6.3	-40.0	67.4	24.1	0.0
QoQ Growth (%)	-60.3	0.7	-52.0	-10.8	LP	0.0
PBITM (%)	0.7	7.0	4.9	15.9	63.2	0.0

Source: Company, ICICIdirect.com Research

Exhibit 4: Trend in profitability margin (%)



Source: Company, ICICIdirect.com Research

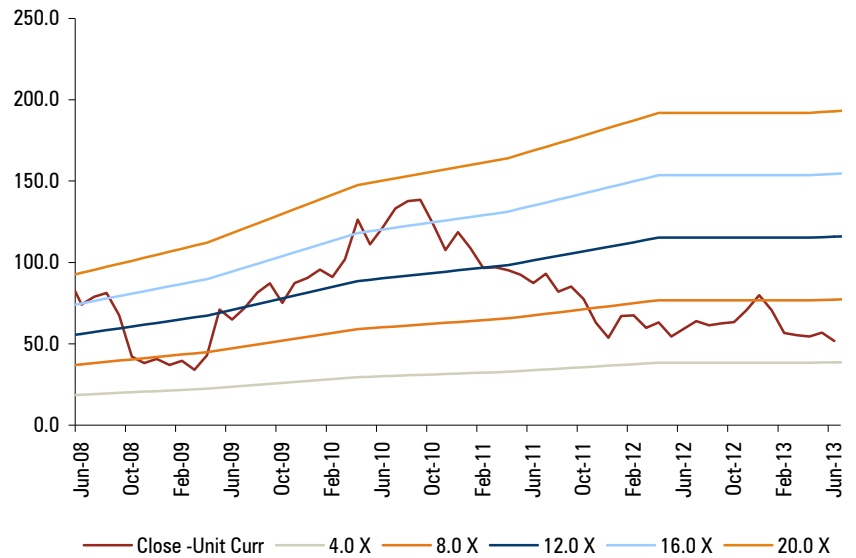
The freight division continues to contribute a significant share to revenues at 39%. However, on the EBIT margin front, it declined from 2.3% in Q1FY13 to 0.6% in Q1FY14. The SCM and express segment margins also contracted 301 and 118 bps YoY, respectively, for Q1FY14. However, the EBIT margin for the seaways segment grew 503 bps YoY in Q1FY14 on account of cargo growth along the Chennai-Port Blair-Yangon route. Going ahead, there is a conscious effort to reduce the share from the freight segment towards express and supply chain, which is expected to improve the operating margin for TCI

A gradual shift in the business mix from the low margin freight business to the high margin SCS and XPS business will improve the EBITDA margin of the company, going ahead. We expect an EBITDA margin of 8.0% and 8.2% in FY14E and FY15E, respectively

Valuation

Decline in volumes together with margin pressure in the freight segment (highest revenue contributor) reinforce a worsening scenario plaguing the industry. Also, newer offshoots like SCM and express also recorded a decline in margin both QoQ and YoY. Consequently, we revise our FY15 EPS estimate downward by 6% to ₹ 9.9 and assign a multiple of 6x FY15E EPS to arrive a target price of ₹ 60. We maintain our **BUY** rating.

Exhibit 5: PE Chart



Source: Company, ICICIdirect.com Research

Exhibit 6: Revised Estimates

₹ cr)	Old		New	
	FY14E	FY15E	FY14E	FY15E
Sales	2297.9	2471.9	2249.9	2398.6
EBITDA	186.1	201.5	180.0	195.5
EBITDA (%)	8.1	8.2	8.0	8.2
Net Profit	73.9	76.1	69.6	71.9
EPS	10.2	10.5	9.6	9.9

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Revenue	1,953.7	2,132.1	2,249.9	2,398.6
Growth (%)	5.5	9.1	5.5	6.6
Operating expense	1568.32	1718.30	1806.69	1923.64
Manpower Cost	101.53	112.09	119.25	127.12
Admin & other expense	127.5	127.0	144.0	152.3
Total Expense	1,797.3	1,957.3	2,069.9	2,203.1
EBITDA	156.4	174.8	180.0	195.5
Growth (%)	12.9	11.7	3.0	8.6
Depreciation	41.6	46.4	50.6	56.9
EBIT	114.9	128.4	129.4	138.6
Interest	35.0	33.6	38.4	44.4
Other Income	5.7	6.3	6.3	6.3
PBT	85.5	101.0	97.3	100.5
Growth (%)	4.6	18.1	-3.7	3.3
Tax	25.9	31.5	27.7	28.6
Reported PAT	59.5	69.5	69.6	71.9
Growth (%)	18.7	16.8	0.1	3.3

Source: Company, ICICIdirect.com Research

Cash flow statement

(Year-end March)	FY12	FY13E	FY14E	FY15E
Profit after Tax	59.8	69.5	69.6	71.9
Add: Depreciation	41.6	46.4	50.6	56.9
Add: Others	-33.4	0.0	0.0	0.0
Cash Profit	94.4	181.1	186.3	201.8
Increase/(Decrease) in CL	26.4	29.9	46.9	43.8
(Increase)/Decrease in CA	3.5	-35.5	-32.0	-46.0
CF from Operating Activities	98.4	144.0	173.4	170.9
Purchase of Fixed Assets	-84.0	-97.4	-97.4	-102.4
(Inc)/Dec in Investments	-1.0	-0.2	-0.2	-0.2
Others	-35.6	-76.2	-82.2	-88.3
CF from Investing Activities	-120.6	-173.8	-179.8	-191.0
Inc/(Dec) in Loan Funds	33.4	35.0	50.0	60.0
Inc/(Dec) in Sh. Cap. & Res.	1.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	34.7	35.0	50.0	60.0
Change in cash Eq.	12.5	5.2	43.7	40.0
Op. Cash and cash Eq.	18.3	30.7	35.9	79.5
Cl. Cash and cash Eq.	30.7	35.9	79.5	119.5

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Source of Funds				
Equity Capital	14.5	14.5	14.5	14.5
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	363.7	418.5	474.4	532.6
Shareholder's Fund	378.3	433.0	488.9	547.1
Loan Funds	83.9	93.9	113.9	143.9
Deferred Tax Liability	31.7	31.7	31.7	31.7
Minority Interest	2.8	2.8	2.8	2.8
Source of Funds	496.8	561.5	637.4	725.6
Application of Funds				
Gross Block	622.7	719.7	816.7	918.7
Less: Acc. Depreciation	201.9	250.6	301.2	358.1
Net Block	415.9	469.1	515.5	560.6
Capital WIP	7.8	8.2	8.6	9.1
Total Fixed Assets	423.7	477.3	524.1	569.7
Goodwill on consolidation	0.3	0.3	0.3	0.3
Non-Current Investments	13.1	13.3	13.5	13.8
Inventories	2.0	2.3	2.5	2.6
Debtor	336.4	362.2	388.3	427.1
Cash	30.7	35.9	79.5	119.5
Loan & Advance, Other CA	67.4	77.0	82.8	90.0
Total Current assets	436.5	477.4	553.1	639.3
Current Liabilities	354.1	380.5	424.4	464.6
Provisions	22.7	26.3	29.3	32.9
Total CL and Provisions	376.9	406.8	453.7	497.5
Net Working Capital	59.7	70.6	99.4	141.8
Application of Funds	496.8	561.5	637.4	725.6

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY12	FY13E	FY14E	FY15E
Per share data (₹)				
Book Value	52.1	59.7	67.4	75.4
Cash per share	4.2	4.9	11.0	16.5
EPS	8.2	9.6	9.6	9.9
Cash EPS	13.9	16.0	16.6	17.7
DPS	0.6	0.7	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	8.0	8.2	8.0	8.1
PAT Margin (%)	3.0	3.3	3.1	3.0
Fixed Asset Turnover (x)	4.6	4.5	4.3	4.2
Inventory Turnover (Days)	0.4	0.4	0.4	0.4
Debtor (Days)	62.9	62.0	63.0	65.0
Current Liabilities (Days)	70.4	69.6	73.6	75.7
Return Ratios (%)				
RoE	15.7	16.0	14.2	13.1
RoCE	24.9	24.4	21.5	20.1
RoIC	16.2	15.7	14.6	14.4
Valuation Ratios (x)				
PE	6.8	5.8	5.8	5.7
Price to Book Value	1.1	0.9	0.8	0.7
EV/EBITDA	2.9	2.7	2.4	2.2
EV/Sales	0.2	0.2	0.2	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.8	0.8	0.8	0.8
Interest Coverage (x)	3.3	3.8	3.4	3.1
Debt to EBITDA (x)	2.2	2.1	2.2	2.2
Current Ratio	1.2	1.2	1.2	1.3
Quick ratio	1.2	1.2	1.2	1.3

Source: Company, ICICIdirect.com Research

Company Description

Transport Corporation of India (TCI) is India's leading integrated logistics and supply-chain solution provider, offering single-window integrated services, backed by strong multi-mode transport operations by road, rail, sea and air. The company operates in high growth segments such as express cargo & supply chain solutions. TCI has a fleet of 7,000 trucks, trailers and reefer vehicles with a skilled workforce of 6,500.

Exhibit 7: Recommendation History



Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
27-Jul-12	Q1FY13 Result Update	62	73	BUY
6-Nov-12	Q2FY13 Result Update	62	72	BUY
31-Jan-13	Q3FY13 Result Update	70	72	HOLD
21-May-13	Q4FY13 Result Update	57	73	BUY
30-Jul-13	Q1FY14 Result Update	52	60	BUY

Source: Company, ICICIdirect.com Research

ICICI direct.com coverage universe (Logistics)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Container Corporation (CONCOR)	1,055	1,120	HOLD	11,919	67.5	71.0	74.3	13.6	12.9	12.3	8.9	8.6	7.8	20.1	18.5	17.9	15.7	14.7	14.0
Gateway Distriparks (GATDIS)	105	140	BUY	1,486	12.6	11.9	13.2	11.0	11.0	11.0	5.8	5.9	5.4	16.0	14.4	14.7	13.0	11.8	12.5
Sanghavi Movers (SANMOV)	52	68	HOLD	268	23.5	9.5	8.6	2.8	6.9	7.5	4.3	3.5	3.0	15.4	9.3	9.2	16.2	6.2	5.4
Transport Corp (TRACOR)	52	60	BUY	360	8.2	9.6	9.6	6.2	5.3	5.3	4.1	3.8	3.8	24.3	24.0	21.3	15.7	16.0	14.2
BlueDart (BLUDAR)	2,455	2,460	HOLD	5,940	52.3	63.5	78.3	47.8	39.4	31.9	33.4	27.3	22.7	23.3	22.0	22.1	18.7	17.9	18.2

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
 Buy: > 10%/ 15% for large caps/midcaps, respectively;
 Hold: Up to +/-10%;
 Sell: -10% or more;



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