

Transport Corporation of India (TRACOR)

₹ 53

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 60 to ₹ 55
EPS (FY14E)	Changed from ₹ 9.6 to ₹ 8.5
EPS (FY15E)	Changed from ₹ 9.9 to ₹ 9.2
RATING	Changed from Buy to Hold

Muted quarter with margin contraction...

Transport Corporation of India (TCI) continued to report muted standalone numbers for Q2FY14 with revenues growing 4.5% and 6% to ₹ 499.4 crore QoQ and YoY, respectively. On a segmental basis, revenue contribution remained unchanged with freight division contributing ~39% of revenues, followed by express division and supply chain at 30% and 25%, respectively. EBITDA for the quarter remained largely flattish QoQ at ₹ 32.8 crore against ₹ 33.6 crore in Q1FY14 but declined 5.1% YoY. Pressure on EBITDA margin continues to expand on account of fuel hikes leading to a contraction in margin by 47 bps and 78 bps QoQ and YoY, respectively. EBIT share for the freight division in Q2FY14 stood at 1% whereas for express and supply chain division it was 43% and 28%, respectively. PAT for the quarter declined 6.6% QoQ to ₹ 13.1 crore and remained flattish YoY. Going ahead, we believe revenue and margin contribution by express and supply segment will guide TCI growth.

Segments suffer across the board on account of stunted growth

Worsening economic conditions together with fuel price hike continue to hurt EBITDA margins for TCI by 47 bps and 78 bps QoQ and YoY, respectively. Segment wise also, across all major segments, EBIT margins have contracted in the range of 40 bps to 60 bps QoQ. Flagship segments like freight along with express and supply chain continue to disappoint on the EBIT margin front with margins reported at 0.1%, 5% and 6.4%, respectively, for Q2FY14. However, going ahead, we believe the SCS and express segments would improve results for the year due to the seasonally strong H2FY14 period.

Muted topline, margin pressure continue to dent valuation

With volumes and margin concerns remaining unabated across segments together with stunted growth plaguing the industry, we further downgrade our FY15E EPS estimate by 7%. With newer businesses like SCM and express yet to find a strong foothold we continue to assign a multiple of 6x to FY15E EPS of ₹ 9.2 and arrive at a target price of ₹ 55. We change our recommendation on the stock from BUY to HOLD.

Exhibit 1: Financial Performance

(₹ cr)	Q2FY14	Q2FY14E	Q2FY13	Q1FY14	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	499.4	473.8	470.4	477.7	6.2	4.5
EBITDA	32.8	32.2	34.6	33.6	-5.1	-2.4
EBITDA Margin (%)	6.6	6.8	7.4	7.0	(78bps)	(47bps)
Depreciation	10.5	10.5	10.2	10.3	3.3	1.5
Interest	7.7	7.5	8.3	7.3	-	-
Reported PAT	13.1	11.0	13.1	14.0	-0.4	-6.6
EPS (₹)	1.8	1.5	1.8	1.9	-0.7	-6.6

Source: Company, ICICIdirect.com Research

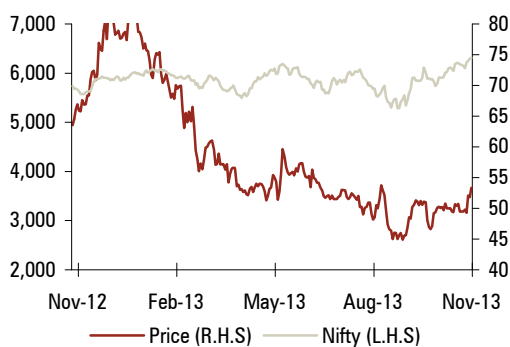
Rating matrix	
Rating	: Hold
Target	: ₹ 55
Target Period	: 12-15 months
Potential Upside	: 4%

Key Financials				
(₹ cr)	FY12	FY13E	FY14E	FY15E
Net Sales	1953.7	2130.5	2040.4	2156.7
EBITDA	156.4	173.7	153.0	170.4
Net Profit	59.5	69.5	62.2	66.8
EPS	8.2	9.5	8.5	9.2

Valuation summary				
	FY12	FY13E	FY14E	FY15E
PE (x)	6.2	5.3	6.0	5.6
Target PE (x)	6.7	5.8	6.4	6.0
EV to EBITDA(x)	4.1	3.7	4.1	3.9
Price to book (x)	0.1	0.1	0.1	0.1
RoNW (%)	15.7	15.9	12.8	12.4
RoCE (%)	24.4	25.1	19.9	19.3

Stock data	
Market Cap. (₹ cr)	367
Debt (FY13) (₹ cr)	309
Cash (FY13) (₹ cr)	46
EV (₹ cr)	631
52 week H/L (₹ cr)	89 / 44
Equity capital (₹ cr)	14.4
Face value (₹)	2
DII Holding (%)	0.1
FII Holding (%)	7.0

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%

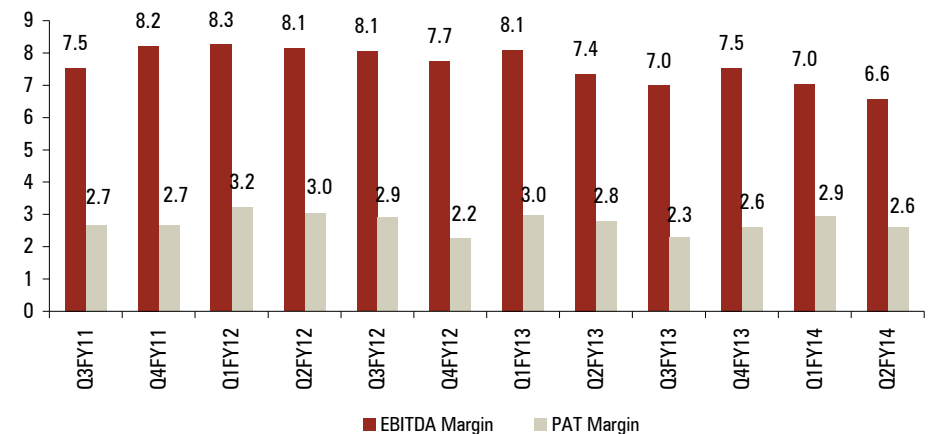
Source: Company, ICICIdirect.com Research

Exhibit 3: Segmental performance in Q2FY14

	Freight	XPS	SCS	Seaways	Wind Power
Net Sales (₹ Cr)	194.2	149.0	127.8	28.9	3.1
% to Total Sales	38.6	29.6	25.4	5.7	0.6
YoY Growth (%)	4.6	9.8	3.6	26.4	-11.8
QoQ Growth (%)	3.5	5.4	6.3	5.5	16.4
PBIT (Rs Cr)	0.2	9.6	6.4	4.5	2.1
YoY Growth (%)	-96.1	7.2	-20.1	816.3	-16.5
QoQ Growth (%)	-87.0	-3.0	7.6	2.7	22.4
PBITM (%)	0.1	6.4	5.0	15.5	66.5

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 0.6% in Q1FY14 to 0.1% in Q2FY14. The express EBIT margin contracted 56 bps whereas the SCM margin remained flattish on a QoQ basis. Also, the EBIT margin for the seaways segment contracted 41 bps QoQ in Q2FY14. Going ahead, there is a conscious effort to reduce the share from the freight segment and channel it towards express and supply chain, which is expected to improve the operating margin for TCI

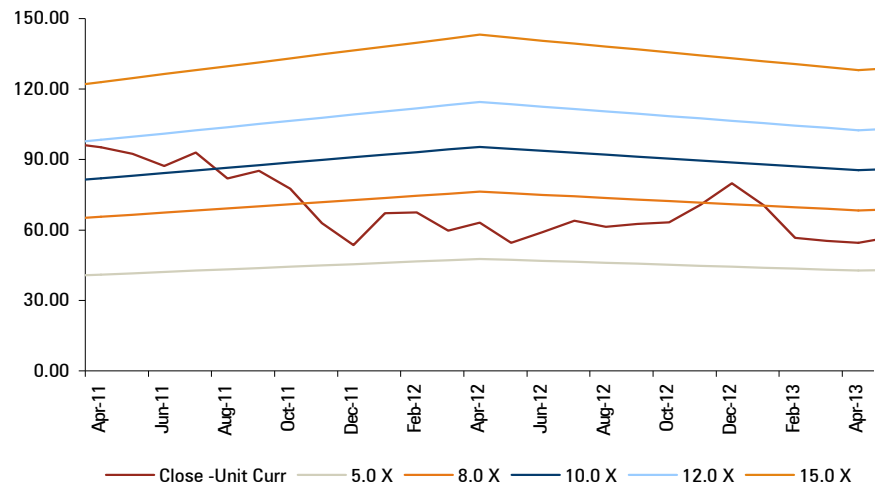
There is a conscious effort to shift the business mix from the low margin freight business to the high margin SCS and XPS business over a long period to improve the EBITDA margin of the company. However, in the near term, we expect EBITDA margin of 7.5% and 7.9% in FY14E and FY15E, respectively

EBIT contribution segment wise declined significantly for the freight division from 6% in Q1FY14 to 1% in Q2FY14. Also, for the supply chain and express segment the EBIT contribution declined from 30% to 28% and 50% to 43% on a QoQ basis, respectively

Valuation

With volume and margin concerns continuing unabated across segments together with stunted growth plaguing the industry, we further downgrade our FY15E EPS estimate by 7%. With newer businesses like SCM and express yet to find a strong foothold we continue to assign a multiple of 6x to FY15E EPS of ₹ 9.2 and arrive at a target price of ₹ 55. We change our recommendation on the stock from BUY to HOLD.

Exhibit 5: PE Chart



Source: Company, ICICIdirect.com Research

Exhibit 6: Revised Estimates

(₹ cr)	Old		New	
	FY14E	FY15E	FY14E	FY15E
Sales	2249.9	2398.6	2040.4	2156.7
EBITDA	180.0	195.5	153.0	170.4
EBITDA (%)	8.0	8.2	7.5	7.9
Net Profit	69.6	71.9	62.2	66.8
EPS	9.6	9.9	8.5	9.2

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Revenue	1,953.7	2,130.5	2,040.4	2,156.7
Growth (%)	5.5	9.0	-4.2	5.7
Operating expense	1568.32	1718.43	1638.46	1729.66
Manpower Cost	101.53	112.09	112.22	114.30
Admin & other expense	127.5	126.3	136.7	142.3
Total Expense	1,797.3	1,956.8	1,887.4	1,986.3
EBITDA	156.4	173.7	153.0	170.4
Growth (%)	12.9	11.1	-11.9	11.3
Depreciation	41.6	46.4	41.9	47.6
EBIT	114.9	127.3	111.1	122.8
Interest	35.0	33.6	31.4	35.9
Other Income	5.7	7.3	7.0	6.3
PBT	85.5	101.0	86.6	93.1
Growth (%)	4.6	18.1	-14.3	7.5
Tax	25.9	31.5	24.4	26.3
Reported PAT	59.5	69.5	62.2	66.8
Growth (%)	18.7	16.8	-10.5	7.4

Source: Company, ICICIdirect.com Research

Cash flow statement

(Year-end March)	FY12	FY13E	FY14E	FY15E
Profit after Tax	59.8	69.6	62.2	66.8
Add: Depreciation	41.6	46.4	41.9	47.6
Add: Others	-33.4	0.0	0.0	0.0
Cash Profit	94.4	180.9	159.8	176.4
Increase/(Decrease) in CL	26.4	50.5	10.8	41.0
(Increase)/Decrease in CA	3.5	-58.6	35.0	-37.7
CF from Operating Activities	98.4	141.3	181.2	153.4
Purchase of Fixed Assets	-84.0	-26.1	-97.3	-102.3
(Inc)/Dec in Investments	-1.0	-19.2	-0.5	-0.5
Others	-35.6	-78.7	-80.2	-79.3
CF from Investing Activities	-120.6	-123.9	-177.9	-182.0
Inc/(Dec) in Loan Funds	33.4	10.0	40.0	50.0
Inc/(Dec) in Sh. Cap. & Res.	1.2	1.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	34.7	-2.1	40.0	50.0
Change in cash Eq.	12.5	15.3	43.2	21.4
Op. Cash and cash Eq.	18.3	30.7	46.0	89.2
Cl. Cash and cash Eq.	30.7	46.0	89.2	110.6

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Source of Funds				
Equity Capital	14.5	14.6	14.6	14.6
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	363.7	422.4	470.6	524.3
Shareholder's Fund	378.3	437.0	485.1	538.8
Loan Funds	83.9	67.4	77.4	97.4
Deferred Tax Liability	31.7	31.5	31.2	31.0
Minority Interest	2.8	1.1	1.1	1.1
Source of Funds	496.8	536.9	594.8	668.3
Application of Funds				
Gross Block	622.7	651.5	748.5	850.5
Less: Acc. Depreciation	201.9	231.2	273.1	320.7
Net Block	415.9	417.4	475.9	530.3
Capital WIP	7.8	5.1	5.3	5.6
Total Fixed Assets	423.7	422.5	481.2	535.9
Goodwill on consolidation	0.3	0.2	0.2	0.2
Non-Current Investments	13.1	32.4	32.9	33.4
Inventories	2.0	2.1	2.2	2.4
Debtor	336.4	395.1	352.2	384.1
Cash	30.7	46.0	89.2	110.6
Loan & Advance, Other CA	67.4	66.7	75.1	80.9
Total Current assets	436.5	509.9	518.7	577.9
Current Liabilities	354.1	385.8	411.7	449.7
Provisions	22.7	41.6	26.6	29.5
Total CL and Provisions	376.9	427.4	438.2	479.2
Net Working Capital	59.7	82.5	80.5	98.7
Application of Funds	496.8	537.6	594.8	668.3

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY12	FY13E	FY14E	FY15E
Per share data (₹)				
Book Value	52.1	60.2	66.8	74.2
Cash per share	4.2	6.3	12.3	15.2
EPS	8.2	9.6	8.6	9.2
Cash EPS	13.9	16.0	14.3	15.8
DPS	0.6	0.7	1.1	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	8.0	8.2	7.5	7.9
PAT Margin (%)	3.0	3.3	3.0	3.1
Fixed Asset Turnover (x)	4.6	5.0	4.2	4.0
Inventory Turnover (Days)	0.4	0.4	0.4	0.4
Debtor (Days)	62.9	67.7	63.0	65.0
Current Liabilities (Days)	70.4	73.2	78.4	81.1
Return Ratios (%)				
RoE	15.7	15.9	12.8	12.4
RoCE	24.9	25.2	19.8	19.3
RoIC	16.2	15.7	12.8	12.9
Valuation Ratios (x)				
PE	6.8	5.8	6.5	6.1
Price to Book Value	1.1	0.9	0.8	0.8
EV/EBITDA	2.9	2.5	2.6	2.3
EV/Sales	0.2	0.2	0.2	0.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.8	0.7	0.7	0.7
Interest Coverage (x)	3.3	3.8	3.5	3.4
Debt to EBITDA (x)	2.2	2.3	2.3	2.3
Current Ratio	1.2	1.2	1.2	1.2
Quick ratio	1.2	1.2	1.2	1.2

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
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
1-Nov-13	Q2FY14 Result Update	51	55	HOLD

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)*	761	764	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)	120	117	HOLD	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
Transport Corp (TRACOR)	53	55	HOLD	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)	2,798	2,502	HOLD	6,415	51.4	63.5	73.7	52.5	42.5	36.6	35.6	29.1	27.4	23.7	28.0	26.8	18.6	23.2	23.0

RATING RATIONALE

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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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