

Transport Corporation of India (TRACOR)

₹ 70

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 76 to ₹ 72
EPS (FY13E)	Changed from ₹ 7.7 to ₹ 7.1
EPS (FY14E)	Changed from ₹ 8.3 to ₹ 8
RATING	Unchanged

Margin contraction continues...

Transport Corporation of India (TCI) reported its Q3FY13 results with net sales at ₹ 492.1 crore and PAT at ₹ 11.4 crore. The topline was above our expectations of ₹ 480.7 crore, mainly due to revenue of ₹ 196.1 crore from the freight business, which beat our estimates of ₹ 185 crore. However, the EBITDA was below our estimates while margins contracted 75 bps YoY to 7%, mainly due to higher operating costs. We expect the revenue share of the low margin freight business to reduce from 43% in FY12 to 39% and 37% in FY13E and FY14E, respectively. We expect the combined contribution of the XPS and SCS division to grow from 52% to 65% in the same FY12-14E period. We have valued the stock at 9x FY14E EPS and arrived at a target price of ₹ 72.

Freight business continues lacklustre performance

EBIT margins in the freight business fell sequentially. Margins dropped as the company was unable to completely pass on the increase in operating cost due to the diesel price hike in September. The deteriorating margin of the freight business also dampens the overall margin of the company. The fragmented nature of the trucking industry will continue to play its role in keeping margins of the freight business at a subdued level.

Other businesses

Overall margins also dropped due to dry-dock expense that was booked in Q3FY13. The XPS and SCS division continued their robust performance growing 13.9% and 9.9% YoY, respectively. We expect a re-rating of the company as the contribution of higher margin businesses like XPS and SCS increases and once GST gets implemented. We have valued the stock at 9x FY14E EPS and arrived at a target price of ₹ 72.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY13A	Q3FY13E	Q3FY12	Q2FY13	QoQ (Chg %)	YoY (Chg %)
Net Sales	492.1	480.7	464.4	470.4	4.6	6.0
EBITDA	34.4	36.7	36.0	34.6	-0.6	-4.4
EBITDA Margin (%)	7.0	7.6	7.7	7.4	-36 bps	-75 bps
Depreciation	10.8	11.0	9.2	10.2	6.0	17.0
Interest	7.7	8.0	9.1	8.3	-7.2	-15.0
Other Income	-0.1	1.0	2.6	0.7	-118.9	-105.3
Reported PAT	11.4	13.4	13.5	13.1	-13.6	-15.9
EPS (₹)	1.6	1.8	1.9	1.8	-13.6	-16.0

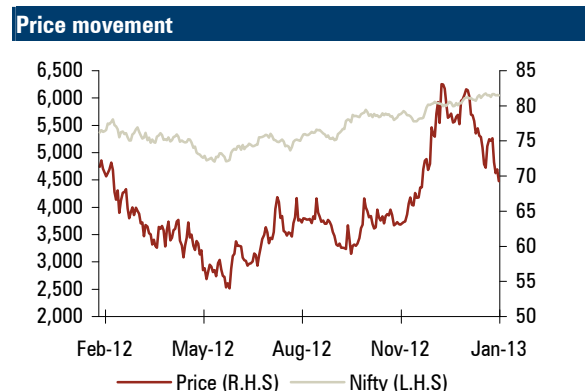
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 72
Target Period	: 12-15 months
Potential Upside	: 3 %

Key Financials				
₹ Crore	FY11	FY12	FY13E	FY14E
Net Sales	1757.8	1829.0	1917.9	2081.2
EBITDA	135.5	145.5	155.4	170.7
Net Profit	55.9	51.8	51.6	58.1

Valuation summary				
	FY11	FY12	FY13E	FY14E
EPS (₹)	7.7	7.1	7.1	8.0
PE (x)	9.1	9.8	9.9	8.7
Target PE (x)	9.3	10.1	10.1	9.0
EV to EBITDA (x)	5.5	5.2	5.2	4.9
Price to book (x)	1.4	1.3	1.1	1.0
RoNW (%)	17.7	14.5	13.1	13.0
RoCE (%)	17.1	16.3	15.5	15.1

Stock data	
Market Capitalization	₹ 508 crore
Debt (FY12)	₹ 322 crore
Cash & Investments (FY12)	₹ 20.5 crore
EV	₹ 809.7 crore
52 week H/L (₹)	89 / 52
Equity capital	₹ 14.5 crore
Face value	₹ 2
MF Holding (%)	0
FII Holding (%)	6.6



Analyst's name	
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Exhibit 2: Assumption Table

	FY11	FY12E	FY13E	FY14E
Freight (% of revenues)	46%	43%	39%	37%
YoY revenue growth	12%	-3%	-4%	2%
Supply Chain ((% of revenues)	22%	25%	28%	32%
YoY revenue growth	59%	15%	14%	15%
XPS (% of revenues)	26%	27%	30%	33%
YoY revenue growth	19%	8%	10%	10%

Source: Company, ICICIdirect.com Research

Exhibit 3: Segmental performance in Q3FY13

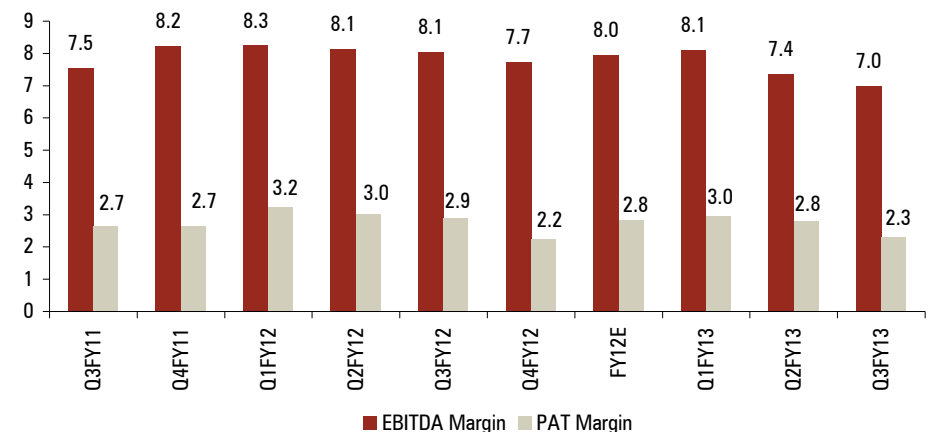
	Freight	XPS	SCS	Seaways	Wind Power	Global
Net Sales (₹ Cr)	196.1	145.2	130.3	21.7	0.7	0.0
% to Total Sales	39.9	29.5	26.5	4.4	0.1	0.0
YoY Growth (%)	1.4	13.9	9.9	-17.2	0.0	0.0
QoQ Growth (%)	5.6	7.0	5.7	-5.3	-80.3	-9.1
PBIT (Rs Cr)	3.6	11.7	7.8	0.6	-0.3	0.0
YoY Growth (%)	-39.0	11.1	-13.5	-86.5	107.7	-100.0
QoQ Growth (%)	-14.8	11.2	-21.3	-77.4	-119.7	NA
PBITM (%)	1.8	8.1	6.0	2.7	-38.6	NA

Source: Company, ICICIdirect.com Research

The freight division reported a sluggish performance with a 1.4% YoY increase in sales. The XPS and SCS division reported robust growth of 13.9% and 9.9% in Q3FY13 as compared to Q3FY12

- The freight division exhibited a meagre 1.4% YoY growth in revenues as the company has started dealing cautiously with clients having higher receivable days
- The SCS division grew at a slower rate of 9.9% YoY while its PBIT margins declined to 6% mainly due to higher operating costs
- The company had a capex plan of ₹ 150 crore for FY13E of which ₹ 47 crore has been incurred so far. The company has given a capex guidance of ₹ 100-150 crore for FY14E

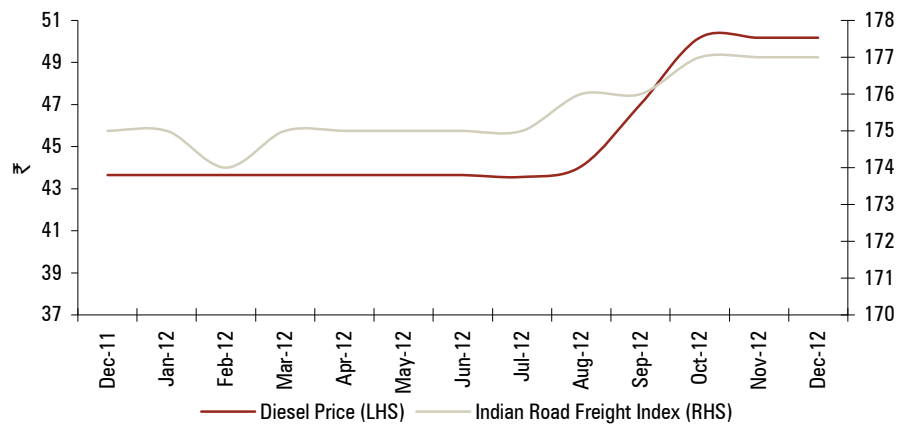
Exhibit 4: Trend in profitability margin (%)



Source: Company, ICICIdirect.com Research

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 8.1% and 8.2% in FY13E and FY14E, respectively

Exhibit 5: Trend in road freight index (RFI)



Source: Company, ICICIdirect.com Research

Valuation

The XPS and SCS division continued their robust performance growing by 13.9% and 9.9% YoY, respectively. We expect a re-rating of the company as the contribution of higher margin businesses like XPS and SCS increases and once GST gets implemented. We have valued the stock at 9x FY14E EPS and arrived at a target price of ₹ 72.

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Revenue	1,757.8	1,829.0	1,917.9	2,081.2
Growth (%)	21.2	4.0	4.9	8.5
Purchase	0.00	0.00	0.00	0.00
Manpower Cost	79.5	91.3	95.9	104.1
Operating expense	1,437.0	1,473.8	1,542.0	1,671.2
Administrative expense	72.5	92.2	95.9	104.1
Repair & Maintenance	33.4	26.1	28.8	31.2
Op. Expenditure	1,622.3	1,683.4	1,762.6	1,910.6
EBITDA	135.5	145.5	155.4	170.7
Growth (%)	23.2	7.4	6.7	9.9
Depreciation	32.1	37.9	42.4	48.3
EBIT	105.5	110.9	116.1	125.5
Interest	25.4	33.2	35.7	38.7
Other Income	2.1	3.2	3.2	3.2
PBT	80.1	77.7	80.5	86.9
Growth (%)	18.4	-2.9	3.6	7.9
Tax	24.1	21.9	22.9	24.8
Reported PAT	55.9	51.8	51.6	58.1
Growth (%)	28.7	-7.3	-0.6	12.7

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
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	300.8	342.2	379.0	430.9
Shareholder's Fund	315.3	356.7	393.5	445.4
Loan Funds	301.1	322.0	356.6	386.6
Deferred Tax Liability	30.9	30.9	30.9	30.9
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	647.4	709.7	781.0	862.9
Application of Funds				
Gross Block	493.1	588.1	683.1	778.1
Less: Acc. Depreciation	169.6	206.1	248.5	296.8
Net Block	323.4	372.6	434.6	481.2
Capital WIP	6.7	11.0	4.8	10.7
Total Fixed Assets	330.1	383.7	439.4	491.9
Investments	29.1	30.6	33.6	36.6
Inventories	1.4	2.0	1.4	1.5
Debtor	299.5	307.4	325.8	353.5
Cash	9.8	20.5	5.4	4.5
Loan & Advance, Other CA	80.0	75.9	95.9	104.1
Total Current assets	390.7	407.2	428.5	463.7
Current Liabilities	71.9	73.5	77.9	84.4
Provisions	30.7	41.2	42.6	45.0
Total CL and Provisions	102.6	114.7	120.4	129.4
Net Working Capital	288.1	292.4	308.1	334.3
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	647.3	709.7	781.1	862.9

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY11	FY12	FY13E	FY14E
Profit after Tax	55.9	51.8	51.6	58.1
Less: Dividend Paid	7.6	4.2	8.7	8.7
Add: Depreciation	32.1	37.9	42.4	48.3
Add: Others	11.5	41.4	18.3	37.7
Cash Profit	91.9	126.9	103.6	135.5
Increase/(Decrease) in CL	2.6	12.1	5.7	8.9
(Increase)/Decrease in CA	-11.6	-16.4	-21.4	-35.1
CF from Operating Activities	82.9	122.6	88.0	109.2
Purchase of Fixed Assets	-52.7	-99.3	-98.9	-98.5
(Inc)/Dec in Investments	6.6	-1.5	-3.0	-3.0
Others	0.7	0.0	0.0	0.0
CF from Investing Activities	-45.4	-100.8	-101.9	-101.5
Inc/(Dec) in Loan Funds	29.5	20.9	34.5	30.0
Inc/(Dec) in Sh. Cap. & Res.	-52.2	1.2	0.0	0.0
Others	-25.4	-33.2	-35.7	-38.7
CF from financing activities	-48.2	-11.1	-1.1	-8.7
Change in cash Eq.	-10.7	10.7	-15.1	-0.9
Op. Cash and cash Eq.	20.5	9.8	20.5	5.4
Cl. Cash and cash Eq.	9.8	20.5	5.4	4.5

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY11	FY12	FY13E	FY14E
Per share data (₹)				
Book Value	43.4	49.1	54.2	61.4
Cash per share	1.4	2.8	0.7	0.6
EPS	7.7	7.1	7.1	8.0
Cash EPS	12.1	12.4	12.9	14.7
DPS	0.5	1.0	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	7.7	8.0	8.1	8.2
PAT Margin (%)	3.2	2.8	2.7	2.8
Fixed Asset Turnover (x)	5.3	4.8	4.4	4.2
Inventory Turnover (Days)	0.3	0.4	0.3	0.3
Debtor (Days)	62.2	61.3	62.0	62.0
Current Liabilities (Days)	21.3	22.9	22.9	22.7
Return Ratios (%)				
RoE	17.7	14.5	13.1	13.0
RoCE	17.1	16.3	15.5	15.1
RoIC	17.4	16.3	15.1	14.4
Valuation Ratios (x)				
PE	8.0	8.7	8.7	7.7
Price to Book Value	1.4	1.3	1.1	1.0
EV/EBITDA	5.5	5.2	5.2	4.9
EV/Sales	0.4	0.4	0.4	0.4
Leverage & Solvency Ratios				
Debt to equity (x)	1.0	0.9	0.9	0.9
Interest Coverage (x)	4.1	3.3	3.3	3.2
Debt to EBITDA (x)	2.2	2.1	2.1	2.1
Current Ratio	3.8	3.5	3.6	3.6
Quick ratio	3.8	3.5	3.5	3.6

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. It has a fleet of 7,000 trucks, trailers and reefer vehicles with a skilled workforce of 6,500.

Exhibit 6: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 7: Recent Releases

Date	Event	CMP	Target Price	Rating
7-Feb-12	Q3FY12 Result Update	69	102	BUY
5-Jun-12	Q4FY12 Result Update	54	69	BUY
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

Source: Company, ICICIdirect.com Research

ICICI direct.com coverage universe (Logistics)

Sector / Company	CMP (₹)		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	CMP	TP			FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Container Corporation (CONCOR)	935	1,006	HOLD	12,153	67.5	70.6	71.8	13.7	13.1	12.9	9.1	9.4	8.3	20.1	18.4	17.4	15.7	14.7	13.6
Gateway Distriparks (GATDIS)	138	145	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
Sanghavi Movers (SANMOV)	88	101	HOLD	381	23.5	17.3	22.5	3.7	5.1	3.9	3.4	3.3	2.6	15.4	13.1	15.4	16.6	11.4	13.5
Transport Corp (TRACOR)	70	72	HOLD	508	7.1	7.1	8.0	8.7	8.7	7.7	5.2	5.2	4.9	16.3	15.5	15.1	14.5	13.1	13.0

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



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