

# Transport Corporation of India (TRACOR)

₹ 93

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from ₹ 55 to ₹ 106
EPS (FY15E) .....	Changed from ₹ 9.2 to ₹ 9.4
EPS (FY16E) .....	Introduced at ₹ 11.8
RATING .....	Changed from Hold to Buy

## Supply chain, express to propel growth...

Transport Corporation of India (TCI) reported Q3FY14 numbers with revenues growing ~3% QoQ and 4.7% YoY to ₹ 515 crore whereas EBITDA posted robust growth of 14.6% QoQ and 9.4% YoY to ₹ 37.6 crore. Improvement in EBITDA was due to expansion in EBITDA margin by 73 bps QoQ & 32 bps YoY to 7.3%. Consequently, PAT in the quarter also improved significantly ~10% QoQ and 27% YoY to ₹ 14.4 crore. On a segmental basis, the supply chain and express division have gained significant traction with revenues for both segments growing strongly at 11% and 6%, respectively YoY. Also, supply chain and express segment contribution to revenue improved to 28% and 30%, respectively, for Q3FY14 (vs. 26% and 30% in Q2FY14) whereas the freight segment contribution declined to 38% (40% Q2FY14). Going ahead, as the focus shifts towards better margin segments like express and supply chain, we believe these segments will propel TCI to a higher growth orbit.

### Strong recovery driven by supply chain and express segment

Supply chain (SCS) and express division revenues grew significantly as the freight segment continued to decline. On an EBIT basis, SCS and express segment posted growth of 17% and 26% QoQ to ₹ 7.5 crore and ₹ 12.1 crore, respectively. Going ahead, on the back of growth in the E-tailing segment (from \$16 billion in 2013 to \$56 billion in 2023) together with growth in warehouse and cold chain segment (cold chain segment growing 20-25% from ₹ 125 billion to ₹ 400 billion in 2015) we believe SCS and express segments possess massive growth potential.

### Visible shift in revenue mix, enhanced margins warrant valuation upgrade

With revenue contribution getting skewed towards SCS and express segment from freight division, we believe margins will improve further, going ahead. Also, as SCS and express businesses are highly EPS accretive vis-à-vis the freight segment, we anticipate earnings will post CAGR of 13% over FY14E-16E against CAGR of 11% over FY11-13. Consequently, we introduce FY16E EPS at ₹ 11.8 and assign a multiple of 9x as there is a shift of revenue mix towards low levered SCS and debt free express segment to arrive at a TP of ₹ 106. Recommend **BUY**.

### Exhibit 1: Financial Performance

(₹ cr)	Q3FY14	Q3FY14E	Q3FY13	Q2FY14	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	515.0	523.2	492.1	499.4	4.7	3.1
EBITDA	37.6	35.6	34.4	32.8	9.4	14.6
EBITDA Margin (%)	7.3	6.8	7.0	6.6	32bps	73bps
Depreciation	10.8	10.6	10.8	10.5	0.4	3.0
Interest	7.6	8.0	7.7	7.7	-	-
Reported PAT	14.4	15.0	11.4	13.1	26.8	9.9
EPS (₹)	2.0	2.1	1.6	1.8	26.3	9.9

Source: Company, ICICIdirect.com Research

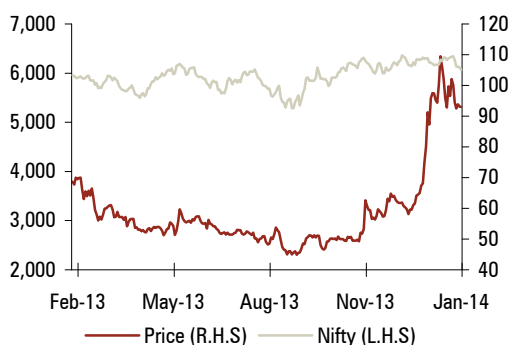
Rating matrix	
Rating	: Buy
Target	: ₹ 106
Target Period	: 12-15 months
Potential Upside	: 14%

Key Financials				
(₹ cr)	FY13	FY14E	FY15E	FY16E
Net Sales	2130.5	2053.0	2195.8	2415.9
EBITDA	173.7	145.8	166.9	193.3
Net Profit	69.5	59.4	68.1	86.0
EPS	9.5	8.2	9.4	11.8

Valuation summary				
	FY13	FY14E	FY15E	FY16E
PE (x)	9.6	11.3	9.8	7.8
Target PE (x)	5.8	6.7	5.9	4.7
EV to EBITDA(x)	5.4	6.2	5.5	4.8
Price to book (x)	0.2	0.2	0.2	0.2
RoNW (%)	15.9	12.3	12.7	14.1
RoCE (%)	25.1	19.2	19.7	21.2

Stock data	
Market Cap. (₹ cr)	670
Debt (FY13) (₹ cr)	309
Cash (FY13) (₹ cr)	46
EV (₹ cr)	933
52 week H/L (₹ cr)	109 / 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

	FY13	FY14E	FY15E	FY16E
Freight (% of revenues)	36%	37%	36%	33%
YoY revenue growth	1%	-3%	2%	3%
Supply Chain ((% of revenues)	31%	26%	27%	31%
YoY revenue growth	17%	-20%	10%	15%
XPS (% of revenues)	25%	29%	30%	34%
YoY revenue growth	12%	8%	10%	15%

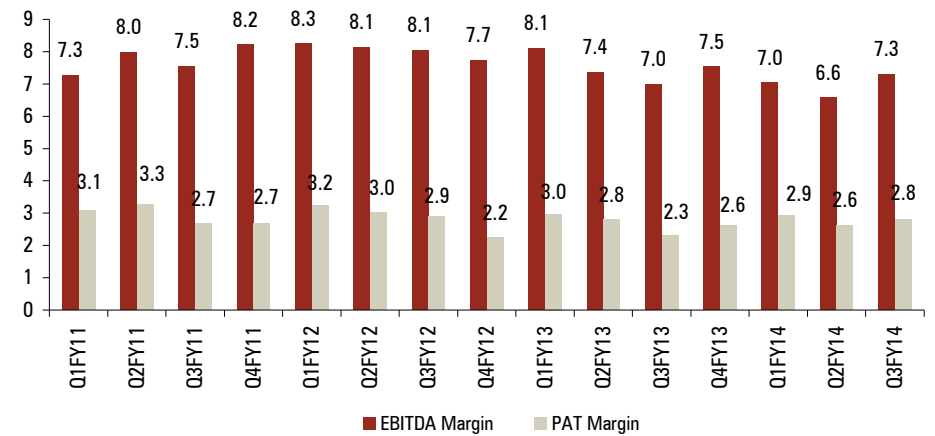
Source: Company, ICICIdirect.com Research

### Exhibit 3: Segmental performance in Q3FY14

	Freight	XPS	SCS	Seaways	Wind Power
Net Sales (₹ Cr)	194.0	154.3	144.3	27.8	0.6
% to Total Sales	37.7	30.0	28.0	5.4	0.1
YoY Growth (%)	-1.1	6.3	10.7	28.1	-8.6
QoQ Growth (%)	-0.1	3.6	12.9	-4.0	-79.6
PBIT (Rs Cr)	0.7	12.1	7.5	6.8	-0.4
YoY Growth (%)	-79.8	3.3	-4.4	1055.9	29.6
QoQ Growth (%)	350.0	26.4	16.7	51.9	-116.8
PBITM (%)	0.4	7.9	5.2	24.6	-54.7

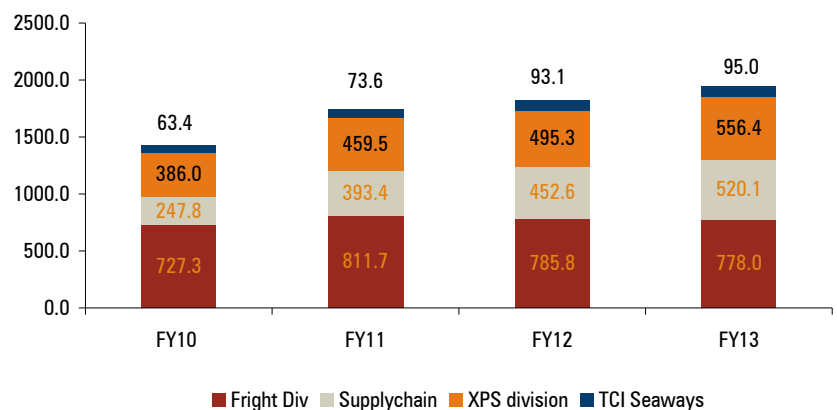
Source: Company, ICICIdirect.com Research

### Exhibit 4: Trend in profitability margin (%)



Source: Company, ICICIdirect.com Research

### Exhibit 5: Trend in revenue contribution being guided by SCS and express



The freight segment revenue growth remained flattish YoY to ₹ 194 crore whereas its contribution to total sales for Q3FY14 declined to 38% from 39% in Q2FY14. Further, at the EBIT level, the freight segment contributes a meagre ₹ 0.7 crore. However, the strong pick-up in SCS and express segment revenue by 11% and 6% YoY, respectively, supported total revenue growth of 4.6% YoY. Another heartening factor has been the shift of revenue mix towards high return SCS and express business leading to contribution from these segments to 28% and 30%, respectively, for Q3FY14. Further, the shipping segment continues to contribute in the range of ~5-6% to revenue for the quarter posting growth of 28% YoY

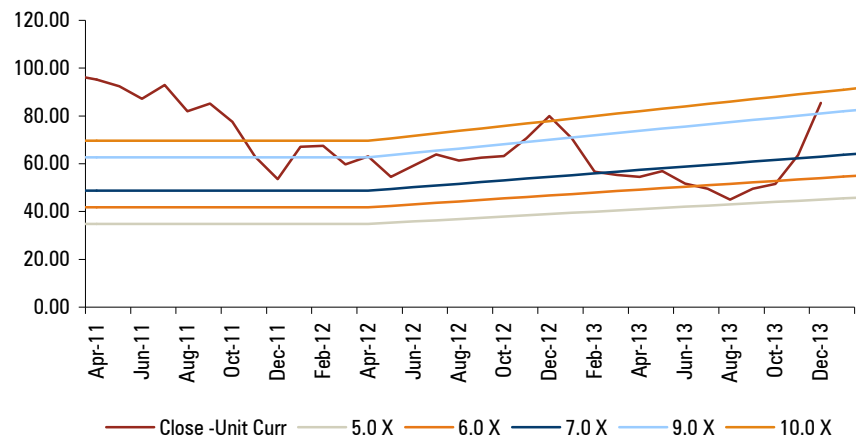
There is a conscious effort to shift the business mix from the low margin freight business to the high margin SCS and XPS business over a long period to improve the EBITDA margin of the company. Consequently, over the period we expect EBITDA margin to improve to 7.6% and 8% in FY15E and FY16E, respectively

On a segmental basis, revenue growth has been predominantly guided by SCS and express segment registering CAGR of 20% and 10%, respectively, over FY10-13 whereas the shipping segment reported CAGR of 11% on a lower base over the same period. Finally the freight segment posted CAGR of mere 2% over FY10-13

## Valuation

With revenue contribution getting skewed towards the SCS and express segments from the freight division, we believe margins will improve further, going ahead. Also, as SCS and express businesses are highly EPS accretive vis-à-vis the freight segment, we anticipate the earnings will post CAGR of 13% over FY14E-16E against CAGR of 11% over FY11-13. Consequently, we introduce FY16E EPS at ₹ 11.8 and assign a multiple of 9x as there is a shift of revenue mix towards low levered SCS and debt free express segment to arrive at a target price of ₹ 106. We recommend **BUY**.

**Exhibit 6: PE Chart**



Source: Company, ICICIdirect.com Research

**Exhibit 7: Revised Estimates**

(₹ cr)	Old		New	
	FY15E	FY16E	FY15E	FY16E
Sales	2156.7	-	2195.8	2415.9
EBITDA	170.4	-	166.9	193.3
EBITDA (%)	7.9	-	7.6	8.0
Net Profit	66.8	-	68.1	86.0
EPS	9.2	-	9.4	11.8

Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement

(Year-end March)	FY13	FY14E	FY15E	FY16E
Revenue	2,130.5	2,053.0	2,195.8	2,415.9
Growth (%)	9.0	-3.6	7.0	10.0
Operating expense	1718.43	1652.66	1763.25	1935.13
Manpower Cost	112.09	112.91	118.57	128.04
Admin & other expense	126.3	141.7	147.1	159.4
Total Expense	1,956.8	1,907.2	2,028.9	2,222.6
EBITDA	173.7	145.8	166.9	193.3
Growth (%)	11.1	-16.1	14.5	15.8
Depreciation	46.4	39.4	42.3	41.7
EBIT	127.3	106.4	124.6	151.6
Interest	33.6	30.6	35.9	40.4
Other Income	7.3	7.0	6.3	8.8
PBT	101.0	82.8	94.9	119.9
Growth (%)	18.1	-18.1	14.7	26.3
Tax	31.5	23.3	26.8	33.9
Reported PAT	69.5	59.4	68.1	86.0
Growth (%)	16.8	-14.5	14.6	26.2

Source: Company, ICICIdirect.com Research

### Balance sheet

(Year-end March)	FY13	FY14E	FY15E	FY16E
(₹ Crore)				
<b>Source of Funds</b>				
Equity Capital	14.6	14.6	14.6	14.6
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	422.4	467.2	521.6	593.8
Shareholder's Fund	437.0	481.8	536.1	608.4
Loan Funds	67.4	77.4	97.4	117.4
Deferred Tax Liability	31.5	31.2	31.0	30.7
Minority Interest	1.1	1.1	1.1	1.1
Source of Funds	536.9	591.4	665.6	757.6
<b>Application of Funds</b>				
Gross Block	651.5	713.5	785.5	885.0
Less: Acc. Depreciation	231.2	270.6	312.9	354.6
Net Block	417.4	443.4	472.5	524.2
Capital WIP	5.1	5.3	5.6	5.9
Total Fixed Assets	422.5	448.8	478.1	530.1
Goodwill on consolidation	0.2	0.2	0.2	0.2
Non-Current Investments	32.4	33.8	35.8	35.6
Inventories	2.1	2.2	2.4	2.6
Debtor	395.1	354.4	391.0	430.2
Cash	46.0	115.8	158.1	198.6
Loan & Advance, Other CA	66.7	75.5	82.4	90.7
Total Current assets	509.9	548.0	633.9	722.2
Current Liabilities	385.8	412.6	452.3	497.4
Provisions	41.6	26.7	30.1	33.1
Total CL and Provisions	427.4	439.3	482.4	530.5
Net Working Capital	82.5	108.7	151.5	191.7
Application of Funds	537.6	591.4	665.6	757.6

Source: Company, ICICIdirect.com Research

### Cash flow statement

(Year-end March)	FY13	FY14E	FY15E	FY16E
(₹ Crore)				
Profit after Tax	69.6	59.4	68.1	86.0
Add: Depreciation	46.4	39.4	42.3	41.7
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	180.9	152.5	172.9	201.8
Increase/(Decrease) in CL	50.5	11.9	43.1	48.1
(Increase)/Decrease in CA	-58.6	32.4	-43.5	-47.6
CF from Operating Activities	141.3	173.4	145.7	168.4
Purchase of Fixed Assets	-26.1	-62.3	-72.3	-99.8
(Inc)/Dec in Investments	-19.2	-0.5	-0.5	-0.5
Others	-78.7	-80.8	-80.7	-77.6
CF from Investing Activities	-123.9	-143.6	-153.5	-177.8
Inc/(Dec) in Loan Funds	10.0	40.0	50.0	50.0
Inc/(Dec) in Sh. Cap. & Res.	1.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-2.1	40.0	50.0	50.0
Change in cash Eq.	15.3	69.8	42.2	40.6
Op. Cash and cash Eq.	30.7	46.0	115.8	158.1
Cl. Cash and cash Eq.	46.0	115.8	158.1	198.6

Source: Company, ICICIdirect.com Research

### Key ratios

(Year-end March)	FY13	FY14E	FY15E	FY16E
<b>Per share data (₹)</b>				
Book Value	60.2	66.4	73.9	83.8
Cash per share	6.3	16.0	21.8	27.4
EPS	9.6	8.2	9.4	11.8
Cash EPS	16.0	13.6	15.2	17.6
DPS	0.7	1.1	1.0	1.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	8.2	7.1	7.6	8.0
PAT Margin (%)	3.3	2.9	3.1	3.6
Fixed Asset Turnover (x)	5.0	4.6	4.6	4.6
Inventory Turnover (Days)	0.4	0.4	0.4	0.4
Debtor (Days)	67.7	63.0	65.0	65.0
Current Liabilities (Days)	73.2	78.1	80.2	80.2
<b>Return Ratios (%)</b>				
RoE	15.9	12.3	12.7	14.1
RoCE	25.2	19.0	19.7	20.9
RoIC	15.7	12.8	13.8	15.1
<b>Valuation Ratios (x)</b>				
PE	9.6	11.3	9.8	7.8
Price to Book Value	1.5	1.4	1.3	1.1
EV/EBITDA	5.4	6.2	5.5	4.8
EV/Sales	0.4	0.4	0.4	0.4
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.7	0.7	0.7	0.7
Interest Coverage (x)	3.8	3.5	3.5	3.7
Debt to EBITDA (x)	1.8	2.4	2.4	2.3
Current Ratio	1.2	1.2	1.3	1.4
Quick ratio	1.2	1.2	1.3	1.4

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 8: Recommendation History



### Exhibit 9: Recent Releases

Date	Event	CMP	Target Price	Rating
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
30-Jan-14	Q3FY14 Result Update	93	106	BUY

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 (%)		
	(₹)	TP(₹)			FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Container Corporation (CONCOR)*	727	764	HOLD	11,919	47.7	51.0	52.1	15.6	14.6	14.3	11.0	10.5	9.2	15.6	13.7	14.0	14.8	14.7	13.8
Gateway Distriparks (GATDIS)	125	117	HOLD	1,356	11.7	11.2	12.3	10.0	10.4	9.5	5.2	5.0	4.4	19.2	18.2	19.8	16.1	14.9	15.6
Transport Corp (TRACOR)	93	106	BUY	670	8.2	9.6	8.2	6.8	5.8	6.8	2.9	2.5	2.5	24.9	25.2	19.0	15.7	15.9	12.3
BlueDart (BLUDAR)	3,470	2,502	SELL	9,200	63.5	74.3	95.1	61.0	52.1	40.7	33.7	39.6	29.6	35.0	26.9	23.3	29.0	23.1	26.1
Essar Ports (ESSSHI)	55	60	HOLD	2,525	7.7	9.1	10.0	7.6	6.5	5.9	6.5	7.4	6.2	11.2	10.2	11.8	12.2	15.0	14.1
Gujarat Pipavav Port (GUJPPL)#	61	61	HOLD	2,997	3.3	3.4	3.9	18.5	18.2	15.8	13.8	12.1	10.3	10.5	9.3	9.3	11.8	10.7	11.0

## 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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## ANALYST CERTIFICATION

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