

Transport Corporation of India (TRACOR)

₹ 57

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 72 to ₹ 73
EPS (FY14E)	Changed from ₹ 7.1 to ₹ 10.2
EPS (FY15E)	Introduced at ₹ 10.5
RATING	Changed from Hold to Buy

SCM, express segment to steer growth...

Transport Corporation of India (TCI) posted confident Q4FY13 standalone numbers with revenue growing 8.1% and 7.3% QoQ and YoY, respectively. Revenue for Q4FY13 stood at ₹ 532.1 crore against ₹ 492.1 crore in Q3FY13. The freight division continues to be the major revenue contributor (41%) followed by express delivery (27%) and supply chain segment (26%). EBITDA for the quarter stood at ₹ 40.1 crore vis-à-vis ₹ 34.4 crore in Q3FY13. The EBITDA margin expanded sequentially 54 bps in Q4FY13 to 7.5%. PAT for the quarter stood at ₹ 13.9 crore, posting growth of 22% QoQ. Going ahead, the supply chain & express division contribution to revenue is expected to increase to 60% whereas the low margin freight division share is expected to contract to 35%, leading to better operating margin by the company. However, high debtor days continue to remain a concern stressing the working capital.

SCM, express and global business; budding green shoots

Amid withering economic conditions, TCI posted 9% growth in topline and 12% growth in EBITDA YoY for FY13 on a consolidated basis. EBIT margin from the SCM and express divisions for FY13 stood at 8.9% and 7.4%, respectively, whereas for freight segment it was at meagre 1.9%. The growth was largely driven by supply chain (SCM) and express division together with the upcoming global business division. Going ahead, revenue contribution is expected to skew towards the express and SCM segment, consequently, leading to margin improvement.

Tepid freight division growth but other segments to provide upside

In a worsening economic scenario, express and SCM posted 12.3% and 16.6% growth in revenue, respectively, compared to 1% by freight segment for FY13. Though express and SCM segments have shown sustained revenue growth, stressed working capital remains a concern. We have introduced our FY15 estimates. We have valued the stock at 7x FY15E EPS to arrive at target price of ₹ 73 with a **BUY** rating.

Exhibit 1: Financial Performance

(₹ Crore)	Q4FY13	Q4FY13E	Q4FY12	Q3FY13	QoQ (Chg %)	YoY (Chg %)
Net Sales	532.1	498.1	495.7	492.1	8.1	7.3
EBITDA	40.1	36.1	38.4	34.4	16.6	4.4
EBITDA Margin (%)	7.5	7.2	7.7	7.0	54 bps	-21 bps
Depreciation	11.3	11.0	11.1	10.8	5.3	2.4
Interest	7.5	8.0	8.4	7.7	-3.5	-11.5
Other Income	2.3	0.3	0.4	-0.1	-1771.4	485.0
Reported PAT	13.9	12.3	11.2	11.4	22.3	24.5
EPS (₹)	1.9	1.7	1.5	1.6	22.3	24.5

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 73
Target Period	: 12-15 months
Potential Upside	: 28%

Key Financials				
₹ Crore	FY12	FY13E	FY14E	FY15E
Net Sales	1953.7	2132.1	2297.9	2471.9
EBITDA	156.4	174.8	186.1	201.5
Net Profit	59.5	69.5	73.9	76.1

Valuation summary				
	FY12	FY13E	FY14E	FY15E
EPS (₹)	8.2	9.6	10.2	10.5
PE (x)	7.1	6.1	5.7	5.5
Target PE (x)	9.0	7.7	7.3	7.1
EV to EBITDA (x)	4.4	4.1	3.9	3.7
Price to book (x)	0.2	0.1	0.1	0.1
RoNW (%)	15.7	16.0	15.0	13.7
RoCE (%)	24.3	24.0	22.1	20.5

Stock data	
Market Capitalization	₹ 421.1 crore
Debt (FY12)	₹ 299.3 crore
Cash & Investments (FY12)	₹ 30.73 crore
EV	₹ 699.8 crore
52 week H/L (₹)	90 / 51
Equity capital	₹ 14.5 crore
Face value	₹ 2
MF Holding (%)	0.1
FII Holding (%)	7.1



Analyst's name	
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Exhibit 2: Assumption

	FY12	FY13E	FY14E	FY15E
Freight (% of revenues)	40%	36%	34%	32%
YoY revenue growth	-3%	1%	2%	2%
Supply Chain ((% of revenues)	29%	31%	33%	35%
YoY revenue growth	48%	17%	15%	15%
XPS (% of revenues)	25%	25%	26%	26%
YoY revenue growth	8%	12%	10%	10%

Source: Company, ICICIdirect.com Research

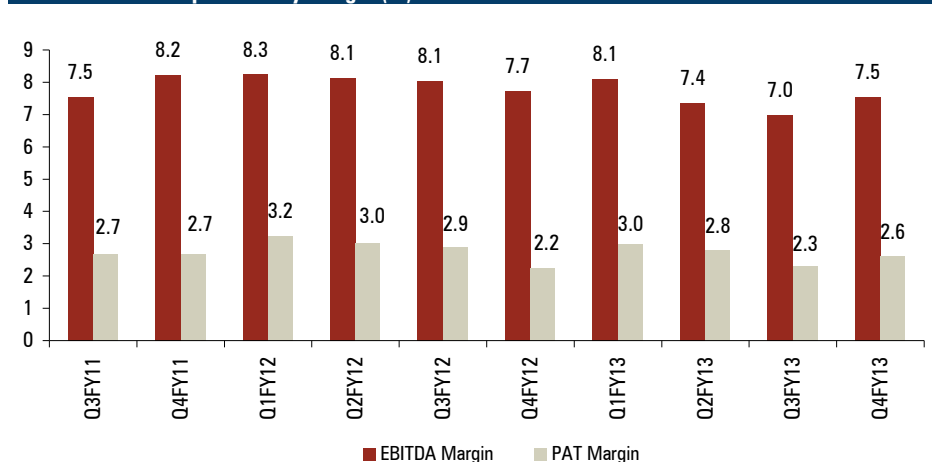
Exhibit 3: Segmental performance in Q4FY13

	Freight	XPS	SCS	Seaways	Wind Power	Global
Net Sales (₹ Cr)	217.4	146.6	141.8	26.5	0.9	0.0
% to Total Sales	40.7	27.4	26.5	5.0	0.2	0.0
YoY Growth (%)	3.6	12.8	4.0	19.2	3.4	0.0
QoQ Growth (%)	10.9	1.0	8.8	22.1	31.4	0.0
PBIT (Rs Cr)	3.1	9.8	12.4	4.9	-0.1	0.0
YoY Growth (%)	-68.0	32.5	1.4	942.6	-53.8	0.0
QoQ Growth (%)	-13.2	-16.3	58.6	730.5	-77.8	0.0
PBITM (%)	1.4	6.7	8.7	18.5	-6.5	0.0

Source: Company, ICICIdirect.com Research

On the capex front, TCI is planning to add 55 trucks over four years. Majority of the capex is expected in the SCM and freight segments. The debt to equity is expected to remain around 0.8x in FY14E and FY15E. Debt raised was largely on account of working capital requirement, as there is a significant delay in payments from customers of TCI.

Exhibit 4: Trend in profitability margin (%)

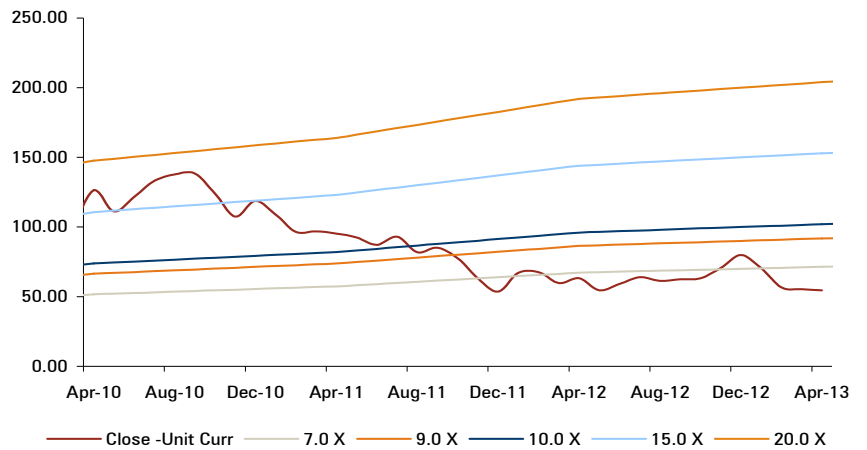


Source: Company, ICICIdirect.com Research

The freight division continues to contribute significant share to the revenue. However, on the EBIT margin front, it is at a mere 1.9% for FY13. On the other hand, express and SCM segments have shown robust growth of 12.3% and 16.6%, respectively, for FY13. EBIT margins also remained at elevated levels of 7.4% and 8.9%, respectively. Hence, there is a conscious effort to decrease the share from the freight segment to 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 8.1% and 8.2% in FY14E and FY15E, respectively

Exhibit 5: PE Chart



Source: Company, ICICIdirect.com Research

Valuation

In a worsening economic scenario, express and SCM posted 12.3% and 16.6% growth in revenue, respectively, compared to 1% by freight segment in FY13. Though express and SCM segments have shown sustained revenue growth, stressed working capital remains a concern. We have introduced our FY15 estimates. We have valued the stock at 7x FY15E EPS to arrive at a target price of ₹ 73 with a **BUY** rating.

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Revenue	1,953.7	2,132.1	2,297.9	2,471.9
Growth (%)	5.5	9.1	7.8	7.6
Operating expense	1568.32	1718.30	1842.95	1982.47
Manpower Cost	101.53	112.09	121.79	131.01
Admin & other expense	127.5	127.0	147.1	157.0
Total Expense	1,797.3	1,957.3	2,111.8	2,270.4
EBITDA	156.4	174.8	186.1	201.5
Growth (%)	12.9	11.7	6.5	8.2
Depreciation	41.6	46.4	50.6	56.9
EBIT	114.9	128.4	135.5	144.6
Interest	35.0	33.6	38.4	44.4
Other Income	5.7	6.3	6.3	6.3
PBT	85.5	101.0	103.4	106.5
Growth (%)	4.6	18.1	2.4	3.0
Tax	25.9	31.5	29.5	30.3
Reported PAT	59.5	69.5	73.9	76.1
Growth (%)	18.7	16.8	6.4	3.0

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	478.8	541.3
Shareholder's Fund	378.3	433.0	493.3	555.8
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	641.8	734.3
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	2.7
Debtor	336.4	362.2	396.6	440.2
Cash	30.7	35.9	77.8	118.3
Loan & Advance, Other CA	67.4	77.0	84.6	92.8
Total Current assets	436.5	477.4	561.5	654.0
Current Liabilities	354.1	380.5	427.7	469.6
Provisions	22.7	26.3	29.9	33.9
Total CL and Provisions	376.9	406.8	457.6	503.5
Net Working Capital	59.7	70.6	103.8	150.5
Application of Funds	496.8	561.5	641.8	734.3

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY12	FY13E	FY14E	FY15E
Profit after Tax	59.8	69.5	73.9	76.1
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	192.5	207.8
Increase/(Decrease) in CL	26.4	29.9	50.8	45.9
(Increase)/Decrease in CA	3.5	-35.5	-42.1	-51.8
CF from Operating Activities	98.4	144.0	171.7	171.5
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	41.9	40.6
Op. Cash and cash Eq.	18.3	30.7	35.9	77.8
Cl. Cash and cash Eq.	30.7	35.9	77.8	118.3

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY12	FY13E	FY14E	FY15E
Per share data (₹)				
Book Value	52.1	59.7	68.0	76.6
Cash per share	4.2	4.9	10.7	16.3
EPS	8.2	9.6	10.2	10.5
Cash EPS	13.9	16.0	17.2	18.3
DPS	0.6	0.7	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	8.0	8.2	8.1	8.2
PAT Margin (%)	3.0	3.3	3.2	3.1
Fixed Asset Turnover (x)	4.6	4.5	4.4	4.3
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	72.7	74.3
Return Ratios (%)				
RoE	15.7	16.0	15.0	13.7
RoCE	24.9	24.4	22.3	20.7
RoIC	16.2	15.7	15.2	14.8
Valuation Ratios (x)				
PE	7.1	6.1	5.7	5.5
Price to Book Value	1.1	1.0	0.9	0.8
EV/EBITDA	3.0	2.7	2.5	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	3.5	3.3
Debt to EBITDA (x)	2.2	2.1	2.1	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 6: Recommendation History



Exhibit 7: Recent Releases

Date	Event	CMP	Target Price	Rating
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
21-May-13	Q4FY13 Result Update	57	73	BUY

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Logistics)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Container Corporation (CONCOR)	1,149	1,040	BUY	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)	123	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)	64	72	HOLD	333	23.5	9.2	8.0	3.3	8.4	9.6	3.2	3.5	3.0	15.4	9.3	9.0	16.6	6.4	5.5
Transport Corp (TRACOR)	58	73	BUY	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
BlueDart (BLUDAR)	2,615	2,381	HOLD	6,130	52.3	59.4	72.7	49.4	43.4	35.5	34.5	28.2	22.8	23.3	23.4	23.5	18.7	17.0	17.3

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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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