

Rating matrix		
Rating	:	BUY
Target	:	₹ 193
Target Period	:	12 months
Potential Upside	:	12%

What's changed?	
Target	Changed from ₹106 to ₹193
EPS FY16E	Changed from ₹11.8 to ₹14.4
EPS FY15E	Changed from ₹9.4 to ₹11.8
Rating	Unchanged

Quarterly performance					
	Q4FY14	Q4FY13	YoY (%)	Q3FY14	QoQ (%)
Revenue	536.2	532.1	0.8	515.0	4.1
EBITDA	46.3	40.1	15.6	37.6	23.1
EBITDA Margin	8.6	7.5	111 bps	7.3	133 bps
PAT	20.5	13.9	47.9	14.4	42.7

Key financials				
₹ Crore	FY13	FY14P	FY15E	FY16E
Net Sales	2,131	2,228	2,404	2,665
EBITDA	173.7	170.0	188.7	215.9
Net Profit	69.5	71.8	85.9	104.4
EPS	9.5	9.8	11.8	14.3

Valuation summary				
	FY13	FY14P	FY15E	FY16E
Target P/E (x)	18.2	17.7	14.7	12.1
EV/EBITDA (x)	8.8	8.9	8.3	7.3
P / BV (x)	2.9	2.6	2.3	2.0
RONW (%)	15.9	15.0	15.5	16.1
ROCE (%)	25.1	23.6	22.4	23.0

Stock data	
Particular	Amount
Market Cap. (₹ cr)	1253
Totak Debt (Mar-14) (₹ Crore)	289.5
Cash and Investment (Mar-14) (₹ Crore)	42.8
EV (₹ Crore)	1,499.5
52 week H/L	174 / 44
Equity Capital (₹ Crore)	14.4
Face Value (₹)	2.0

Analyst	
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Transport Corporation (TRACOR) ₹ 174

Express and SCS segment lead transformation!!!

- Revenue for Q4FY14 posted a growth of 4% QoQ and 1% YoY to ₹536.2 crore with freight, supply chain and express segment posting a growth of -6%, 6% and 7% on YoY basis respectively.
- EBITDA for the quarter stood at ₹46.3 crore growing nearly 23% and 16% on QoQ and YoY basis respectively. Growth in EBITDA is on account of expansion in EBITDA margin by 133 bps and 111 bps on QoQ and YoY basis respectively.
- Consequently, PAT too posted robust growth of 43% and 48% on QoQ and YoY basis respectively.

Moving from trucking to value added services

TCI in India's leading integrated supply chain and logistics solution provider with a fleet of nearly 7000 trucks/trailers/reefer vehicles. TCI, since its inception, remained focussed on the freight segment with more than 70% of revenue derived from the segment. However, owing to the fragmented nature of the industry and low entry barrier the operating margin for the segment for TCI remained in the range of 3-5%. Further, as overall industry growth slowed to 5-8%, TCI's growth in the segment too remained in the range of 2-4%. In order to mitigate the slowdown in the freight segment, TCI ventured into express and supply chain division. Consequently, revenue contribution skewed towards these segments from freight division with freight segment contributing ~37% in FY13 from 66% in FY04. Going ahead, TCI mulls to further trim its exposure in the freight segment to 30% and scale up express and supply chain to 33% each with the remainder coming from shipping and global business.

Growth of E-commerce to buoy express business

The e-commerce business in India is expected to grow five-fold from US\$1.6 billion in 2012 to US\$8.8 billion in 2016. With the continuous increase in internet penetration (currently around 10%), e-commerce growth is expected to get accentuated in non-metro cities as well. To capture the growth in this nascent but niche segment TCI operates through a network of express trucks and vendors. With presence in more than 13000 locations in India the express segment remained a major contributor to revenue at 26% over FY11 to FY14. Going ahead, as the express segment scales up, TCI expects growth of 10-12% from the segment and overall contribution to revenue scaling up to 33%.

Supply chain and warehousing provide new shores

TCI's presence in supply chain and warehousing (SCS) services provide another leg to mitigate the slowing freight business. The SCS industry is anticipated to grow at 20-25% annually and TCI with ~10 million leased and 1 million sq feet own warehousing capacity is one of the foremost players. Also with nearly 1100 owned vessels (including 38 reefer vessels) contribute ~30% to total TCI revenue. The segment derives 75% of its business from the auto sector followed by consumer products and healthcare sectors. Besides supply chain solutions the segment also provides cold chain and key account management services to its customers

Supply chain and express segment on valuation forefront

As express and supply chain segment contribution to TCI earnings improve with diminishing contribution from the freight segment, we move towards SOTP based valuation to provide focus on these growing business. Consequently, we assign P/E multiple of 5x, 10x, 14x and 6x to freight, supply chain, express and seaways division FY16E EPS of ₹0.1, ₹7.8, ₹7.5 and ₹1.7 respectively to arrive at target price of ₹193 with BUY recommendation on the stock.

Variance analysis

	Q4FY14	Q4FY14E	Q4FY13	YoY (%)	Q3FY14	QoQ (%)	Comments
Revenue	536.2	552.3	532.1	0.8	515.0	4.1	Revenue growth is flattish YoY as freight segment declined ~6% YoY
Operating Expenses	428.9	450.3	430.9	-0.5	418.1	2.6	
Employee Expenses	26.9	25.8	25.7	4.8	28.6	-5.8	
Administrative & Oth Expenses	34.1	34.7	35.5	-3.9	30.7	11.2	
Total Expense	489.9	510.9	492.1	-0.4	477.4	2.6	
EBITDA	46.3	41.4	40.1	15.6	37.6	23.1	EBITDA growth strong on expanded EBITDA margin
EBITDA Margin (%)	8.6	7.5	7.5	111 bps	7.3	133 bps	
Depreciation	10.8	11.0	11.3	-4.7	10.8	0.0	
Interest	7.1	7.8	7.5	-5.6	7.6	-7.6	
Other Income	0.3	0.1	2.3	-86.3	0.1	190.9	
Exceptional Gain/Loss	0.0	0.0	-0.7		0.0		
PBT	28.8	22.7	22.9	25.6	19.3	49.2	
Total Tax	8.3	5.8	9.0		4.9		Lower tonnage tax in shipping segment leading to lower tax YoY
PAT	20.5	16.9	13.9	47.9	14.4	42.7	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY15E			FY16E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,195.8	2,403.8	9.5	2,415.9	2,665.3	10.3	Revised growth in SCS and express division as the segments gain traction
EBITDA	166.9	188.7	13.1	193.3	215.9	11.7	
EBITDA Margin (%)	7.6	7.9	25 bps	8.0	8.1	10 bps	Margins to improve a tad as share of supplychain and express segment grow
PAT	68.1	85.9	26.2	86.0	104.4	21.4	
EPS (₹)	9.2	11.8	28.3	11.8	14.3	21.5	

Source: Company, ICICIdirect.com Research

Assumptions

	Current		Earlier		Comments	
	FY13	FY14P	FY15E	FY16E		
Freight (% of revenues)	36	36	34	33	36	33 Freight segment contribution to come down as focus shifts to SCS & Exp
YoY revenue growth (%)	1	4	3	5	2	3
Supply Chain ((% of revenues)	31	31	31	36	27	31 Shift is expected to happen at a faster pace
YoY revenue growth (%)	17	3	10	15	10	15
XPS (% of revenues)	25	26	28	32	30	34
YoY revenue growth (%)	12	8	13	15	10	15

Source: Company, ICICIdirect.com Research

Company Analysis

Freight segment decline compensated by growth in supply chain-express division and stable seaways segment

Freight segment revenue grew at a CAGR of ~2% over FY10-14 whereas the express and supply chain posted a CAGR of ~12% each over the same period. Decline in freight segment has been compensated to an extent by the supply chain and express division with revenue contribution from SCS increasing from 22% in FY11 to 31% to FY14 whereas for express segment maintaining at 26% over the same period. On EBIT margin front, freight segment margin declined from ~4% in FY11 to 0.71% in FY14 whereas as SCS margin improved from 6.6% in FY11 to 7.2% in FY14 whereas express segment margin is maintained at 7.5% over the same period. Going ahead, we expect TCI to balance its business with nearly equal revenue contribution from freight, SCS and express segment thereby improving its margin by another 100 to 150 bps over the long term.

Also, as the seaways division maintains its Port Blair-Chennai-Vizag route monopoly, shipping segment revenue contribution to TCI improved from ~4% in FY10 to 5% in FY14 along with EBIT margin for the division improving from 13% in FY11 to 21.6% in FY14. Going ahead, TCI mulls to add two vessels to its already existing fleet of three vessels with total tonnage capacity of 12,440 DWT.

Exhibit 1: Segmental Revenue Break up

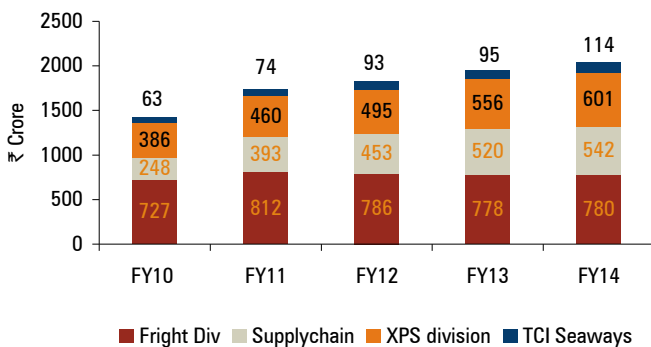
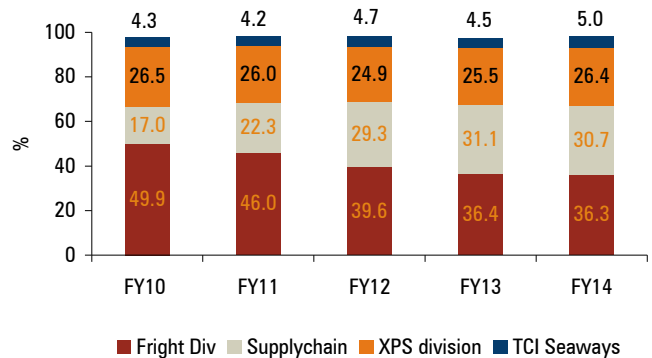


Exhibit 2: Segmental Revenue Contribution



Source: Company, ICICIdirect.com, Research

Source: Company, ICICIdirect.com, Research

Capex aligned to improve operational dexterity

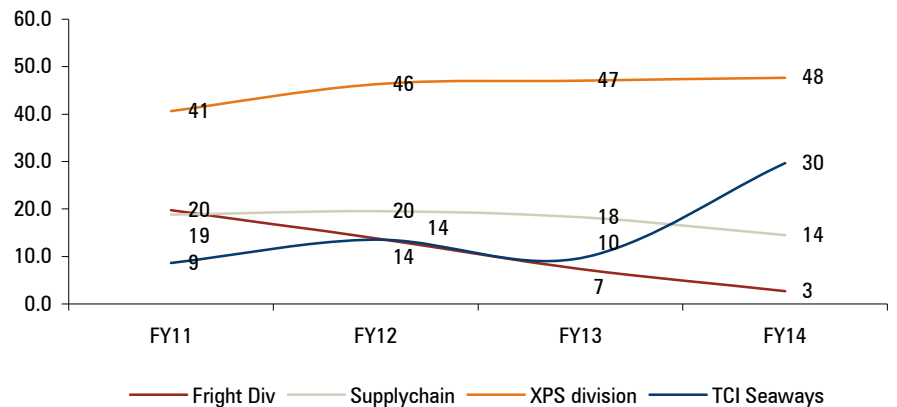
TCI spent ~₹500 crores towards capex from 2006-12 with nearly 39% (₹197.5 crore) directed towards freight segment followed by hub centres and warehousing segment which accounted for 32% (₹163 crore) and finally ship & container segment receiving nearly ₹73 crore. However, as the focus shift towards supply chain and express segment funds are allocated to develop advanced hub centres and warehousing facilities across the country. During FY14, the proposed capex was approximately ₹230 crore; however, only ₹80 crore was spent for want of land clearances and search of ship. Consequently, for FY15 and beyond ₹225-250 crore has been allocated towards capex plans with ~₹130 crore towards development of hub centres followed by ₹65 crore for ship & container segment (₹20 crore already spent for acquisition of new ship in Q1FY15) and finally ₹50 crore for replacement of trucks and development of other IT enabled services. As the capex plan pans out we anticipate TCI to generate higher revenues and transit to higher growth orbit.

Declining return ratios of freight segment skews focus to better return divisions together with maintaining low leverage

The freight division return ratio declined massively from 20% in FY11 to ~3% in FY14 on account of worsening economy and rising fuel charges. However, SCS and express segment return ratios remain stable and range bound at 14%-18% and 40%-48% respectively. TCI seaways return ratios have surprised positively as TCI is the lone operator in the region thereby improving its return ratios from 8.6% in FY11 to ~30% in FY14. Going ahead, we expect marginal dip in the return ratio for seaways and SCS as the segments are expanding.

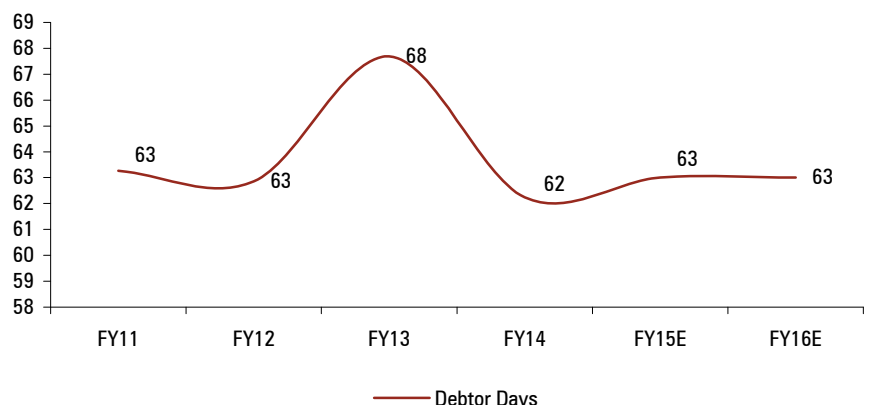
On debt-equity front TCI remains comfortably poised at 0.6x in FY14, however, as the capex progresses debt requirement is expected to inch up. As most debt is short-term in nature to fund working capital requirement, management of debtor days is critical to financial health.

Exhibit 3: Segmental ROCE



Source: Company, ICICIdirect.com Research

Exhibit 4: Debtor days expected to stabilize going ahead



Source: Company, ICICIdirect.com Research

Debtor days have risen sharply in the year FY12-13; however, the management's policy of not engaging customers with poor credit profile has helped to manage the debtor days. Going ahead, as TCI prudently manages customer profile it is expected to maintain low leverage.

Outlook and Valuation

TCI freight division together with express and supply chain form nearly 90% of the revenue. However, in terms of business, the express and supply chain is highly earnings accretive vis-à-vis freight segment, which continues to be largest revenue contributor (36% in FY14). Going ahead, as the company mulls to balance its exposure to these three segments equally, we believe the operating margins and earnings to improve considerably. Consequently, we value TCI on SOTP basis to provide a more focussed approach to the evolving business of the company.

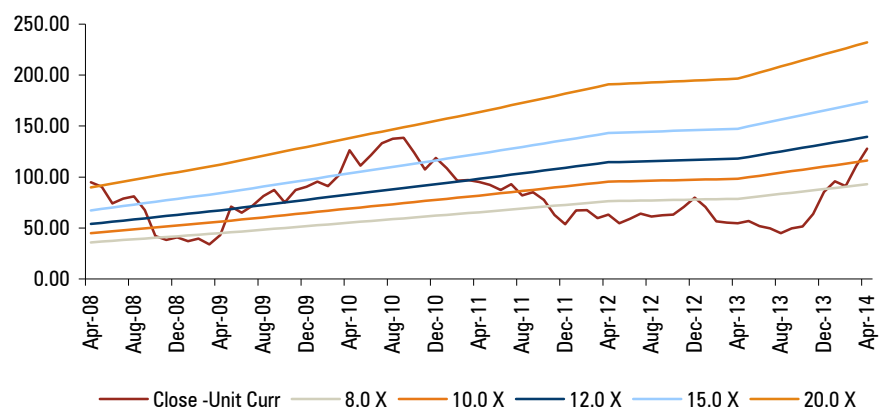
As we segregate the earnings of each division, we find freight segment earnings continue to decline amidst worsening economic scenario and incessant fuel hike. Freight segment EPS declined from ₹2.3 in FY11 to (₹0.4) in FY14, however, going ahead we expect earnings to improve marginally to ₹0.1 in FY16E. Consequently, we value the stock at a PE of 5x FY16 EPS.

As freight segment is not significantly EPS accretive, the focus is more towards value adding segments such as SCS and express segment whose earnings have shown healthy CAGR of 37% and 7% respectively over FY11-14. At capital employed of ₹218 crore and ₹92 crore for SCS and express segment the returns stand significantly strong at 14.5% and 48% respectively for FY14. As SCS is capital intensive segment the ROCE for the division varied between 14%-18% whereas the asset light and debt free express segment ROCE ranged between 40%-50%. Going ahead we expect earnings to remain strong in these segments with EPS from SCS and express division at ₹7.8 (₹4.5 FY14) and ₹7.5 (₹4.2 FY14) respectively in FY16E. We ascribe a P/E multiple of 10x and 14x respectively to arrive at fair price of ₹78 and ₹105 for these divisions.

Valuation			
Segment	FY16E EPS (₹)	P/E(x)	Fair Price(₹)
Freight	0.1	5	0.4
Supply Chain	7.8	10	78.5
Express	7.5	14	104.6
Seaways	1.7	6	10.1
SOTP			193

TCI seaways have shown strong earnings CAGR of 49% over FY11-14 as revenue contribution increased from 4.2% to 5% during the same period. Though capital employed for seaways has increased merely 5% over FY11-14 the returns have increased significantly from ~9% in FY11 to ~30% in FY14. Going ahead we expect EPS for TCI seaways to be ~₹1.7 in FY16E, as a result we assign a P/E multiple of 6x FY16 EPS to arrive at fair price of ₹10 for the segment. Subsequently, on SOTP basis we arrive at target price of ₹193 and recommend BUY rating for the stock.

Exhibit 5: PE chart



Source: Company, ICICIdirect.com Research

Company snapshot



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Aug-08	TCI plans to enter real estate and have pan-India presence
Jan-09	Net profit rises 149% for Q3FY09
Oct-10	Demerger of "Real Estate & warehousing" division TCI developers Ltd
Jun-11	TCI scouts for buys in supply chain business
Jul-11	TCI enters into JV with CONCOR to provide ocean freight carrier service under the company named Infinite Logistics Solution
May-13	TCI recorded 24% growth in net profit YoY
Jan-14	Radhakrishna Damani picks up 3.6% stake in TCI

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bhoruka Finance Corporation of India, Ltd.	30-Sep-13	21.75	15.9	0.0
2	Bhoruka International Pvt. Ltd.	30-Sep-13	14.48	10.6	0.0
3	TCI Group	30-Sep-13	9.19	6.7	0.0
4	Derive Investments	31-Dec-13	5.32	3.9	3.9
5	Agarwal (Chander)	30-Sep-13	2.88	2.1	0.0
6	Agarwal (Dharpal) HUF	30-Sep-13	2.80	2.0	0.0
7	Arcee Holding, Ltd.	30-Sep-13	2.78	2.0	0.0
8	Agarwal (Vineet)	30-Sep-13	2.72	2.0	0.1
9	Agarwal (Priyanka)	30-Sep-13	2.67	2.0	0.0
10	Agarwal (Urmila)	30-Sep-13	2.54	1.9	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-14	Dec-13	Sep-13	Jun-13	Mar-13
Promoter	69.4	69.4	69.4	69.3	69.3
FII	0.6	4.9	7.0	7.1	7.1
DII	0.1	0.1	0.1	0.1	0.1
Others	29.9	25.7	23.5	23.5	23.6

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Derive Investments	5.04m	3.88m	Agarwal (Dharpal)	-9.20m	-4.97m
Mirae Asset Global Investments (India) Pvt. Ltd.	0.72m	0.34m	FIL Investment Management (Hong Kong) Limited	-5.95m	-4.59m
Agarwal (Vineet)	0.06m	0.07m	Dimensional Fund Advisors, L.P.	-0.04m	-0.03m
Religare Invesco Asset Management Company Private Limited	0.06m	0.03m		0	0
Sharma (Phool Chand)	0.04m	0.02m		0	0

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY13	FY14P	FY15E	FY16E	
Revenue	2,130.5	2,228.5	2,403.8	2,665.3	
Growth (%)	9.0	4.6	7.9	10.9	
Operating expense	1718.43	1806.96	1924.22	2132.27	
Manpower Cost	112.09	117.19	129.80	141.26	
Admin & other expense	126.3	134.3	161.1	175.9	
Total Expense	1,956.8	2,058.4	2,215.1	2,449.4	
EBITDA	173.7	170.0	188.7	215.9	
Growth (%)	11.1	-2.1	11.0	14.4	
Depreciation	46.4	46.8	43.5	42.9	
EBIT	127.3	123.2	145.2	173.0	
Interest	33.6	31.1	31.5	36.0	
Other Income	7.3	7.2	6.4	9.0	
PBT	101.0	99.3	120.2	146.0	
Growth (%)	18.1	-1.8	21.1	21.5	
Tax	31.5	27.5	34.3	41.6	
Reported PAT	69.5	71.6	85.9	104.4	
Growth (%)	16.8	3.0	20.0	21.5	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY13	FY14P	FY15E	FY16E	
Profit after Tax	69.6	71.9	85.9	104.4	
Add: Depreciation	46.4	46.8	43.5	42.9	
Add: Others	0.0	0.0	0.0	0.0	
Cash Profit	180.9	177.3	195.1	224.9	
Increase/(Decrease) in CL	50.5	2.7	8.7	38.8	
(Increase)/Decrease in CA	-58.6	17.1	-53.5	-72.6	
CF from Operating Activities	141.3	169.7	116.1	149.4	
Purchase of Fixed Assets	-26.1	-48.7	-110.0	-99.5	
(Inc)/Dec in Investments	-19.2	-28.8	-1.1	-1.1	
Others	-78.7	-75.6	-52.9	-70.9	
CF from Investing Activities	-123.9	-153.1	-163.9	-171.5	
Inc/(Dec) in Loan Funds	10.0	-19.8	60.0	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	-19.8	60.0	50.0	
Change in cash Eq.	15.3	-3.2	12.2	27.9	
Op. Cash and cash Eq.	30.7	46.0	42.8	55.0	
Cl. Cash and cash Eq.	46.0	42.8	55.0	83.0	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY13	FY14P	FY15E	FY16E	
Source of Funds					
Equity Capital	14.6	14.6	14.6	14.6	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	422.4	463.8	539.5	633.7	
Shareholder's Fund	437.0	478.4	554.1	648.3	
Loan Funds	67.4	41.8	91.8	111.8	
Deferred Tax Liability	31.5	31.5	31.5	31.5	
Minority Interest	1.1	3.1	3.1	3.1	
Source of Funds	536.9	554.7	680.4	794.6	
Application of Funds					
Gross Block	651.5	705.3	815.3	914.8	
Less: Acc. Depreciation	231.2	270.4	313.9	356.8	
Net Block	417.4	435.4	501.2	551.7	
Capital WIP	5.1	0.0	0.0	0.0	
Total Fixed Assets	422.5	435.4	501.2	551.7	
Goodwill on consolidation	0.2	0.2	0.2	0.2	
Non-Current Investments	32.4	61.2	62.3	63.3	
Inventories	2.1	1.7	2.6	2.9	
Debtor	395.1	380.0	414.9	460.0	
Cash	46.0	42.8	55.0	83.0	
Loan & Advance, Other CA	66.7	65.3	83.0	111.0	
Total Current assets	509.9	489.8	555.6	656.9	
Current Liabilities	385.8	389.0	405.9	441.1	
Provisions	42.3	42.8	32.9	36.5	
Total CL and Provisions	428.1	431.9	438.9	477.6	
Net Working Capital	81.8	57.9	116.7	179.3	
Application of Funds	536.9	554.7	680.4	794.6	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY13	FY14P	FY15E	FY16E	
Per share data (₹)					
Book Value	60.2	65.9	76.3	89.3	
Cash per share	6.3	5.9	7.6	11.4	
EPS	9.6	9.9	11.8	14.4	
Cash EPS	16.0	16.3	17.8	20.3	
DPS	0.7	1.1	1.3	1.0	
Profitability & Operating Ratios					
EBITDA Margin (%)	8.2	7.6	7.9	8.1	
PAT Margin (%)	3.3	3.2	3.6	3.9	
Fixed Asset Turnover (x)	5.0	5.1	4.8	4.8	
Inventory Turnover (Days)	0.4	0.3	0.4	0.4	
Debtor (Days)	67.7	62.2	63.0	63.0	
Current Liabilities (Days)	73.3	70.7	66.6	65.4	
Return Ratios (%)					
RoE	15.9	15.0	15.5	16.1	
RoCE	25.2	23.7	22.5	22.8	
RoIC	15.7	13.7	14.0	14.4	
Valuation Ratios (x)					
PE	18.2	17.7	14.7	12.1	
Price to Book Value	1.5	1.4	1.2	1.0	
EV/EBITDA	8.8	8.9	8.3	7.3	
EV/Sales	0.7	0.7	0.6	0.6	
Leverage & Solvency Ratios					
Debt to equity (x)	0.7	0.6	0.6	0.6	
Interest Coverage (x)	3.8	4.0	4.6	4.8	
Debt to EBITDA (x)	1.8	1.7	1.9	1.9	
Current Ratio	1.2	1.1	1.3	1.4	
Quick ratio	1.2	1.1	1.3	1.4	

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Logistics)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Container Corporation (CONCOR)*	1,133	827	HOLD	11,919	44.4	47.7	51.3	16.8	15.2	14.2	11.5	10.7	9.9	17.0	15.6	13.3	15.4	16.7	14.2
Gateway Distriparks (GATDIS)	222	195	HOLD	2,409	11.7	12.5	13.5	15.0	14.0	13.0	7.6	7.3	6.4	19.2	18.2	19.5	16.1	16.2	16.5
Transport Corp (TRACOR)	174	193	BUY	1,267	8.2	9.6	9.9	6.8	18.2	17.7	2.9	8.8	8.9	24.9	25.2	23.7	15.7	15.9	15.0
BlueDart (BLUDAR)	3,814	3,138	HOLD	29	51.4	63.5	51.6	62.7	50.8	62.5	42.5	27.9	43.4	23.7	34.6	22.5	18.6	28.6	19.1
Gujarat Pipavav Port (GUJPPL)#	106	95	HOLD	4,158	4.0	4.9	5.6	21.7	17.7	15.3	16.8	13.5	11.0	11.4	12.1	12.9	13.7	14.3	14.2

Source: Company, ICICIdirect.com Research # Follow calendar year * Post bonus issue

RATING RATIONALE

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Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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