

Sluggish demand impacts topline growth...

Transport Corporation of India (TCI) reported mere 1% revenue growth. The freight (~46% of standalone revenues) and shipping division (16%) grew 4% and 8%, respectively, whereas the supply chain division (39%) de-grew 5%. EBITDA margins improved 40 bps to 9%, as lower operating cost to sales ratio was partly offset by higher employee expenses and other expenses. Subsequently, resultant EBITDA and PAT grew 7% and 29%, respectively. The management expects a demand recovery in forthcoming quarters, as Q2 was impacted by heavy monsoon whereas October has seen some festive demand push. Triggers like BS-VI pre-buy in the CV segment are expected to provide a push to the SCS segment (industrial auto).

Revival in SCS segment key to positive stock performance

TCI provides integrated logistics services through multiple modes such as air, road, railways and sea via 900+ IT enabled offices, 4000+ employees with 9000 trucks and trailers in operation and seven ships with a capacity of 91622 DWT and 12 million square feet (msf) of warehouse space. FY20 is expected to deliver mere ~3-4% growth at a blended level vs. 21% and 17% in FY18 and FY19, respectively, led by subdued growth in SCS segment (extended slowdown in the auto sector : ~80% of SCS pie). However, with the decline in auto inventory levels (via normalised growth) and pickup in CV, earth moving segments, the business is expected to see some revival in fortunes. We expect blended revenue growth at 8% CAGR in FY19-21.

Regulations in logistics space to help pan-India players

The implementation of GST and E-Way bill, along with increased permit of 20-25% axle load was intended to create a level playing field for organised, unorganised logistics players. Unorganised players are expected to become less competitive owing to increased cost of compliance enabling opportunity for larger organised players to capture higher market share on a sustained basis.

Valuation and Outlook

Post H1FY20, the management has trimmed down its capex guidance for the rest of the year (₹ 125 crore from earlier ₹ 275 crore). However, the management would weigh options such as lower BS-IV truck prices in H2. The company has expanded its e-commerce partnership (15-20% uptick), acquired fulfilment centres and added capacity during the quarter. We believe utilisation of capacity in the medium term, will push TCI towards blended margins of ~10% with a RoCE of ~14%. With multi-modal capabilities, we believe TCI has developed a strong moat around its business thereby delivering sustainable growth rates. On an SOTP basis, we value the company at ₹ 330/share with a **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market Cap. (₹ cr)	2105.9
Total Debt (FY19) (₹ Cr)	414.2
Cash and Investment (FY19) (₹)	15.5
EV (₹ Crore)	2504.5
52 week H/L	330/231
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

Key Highlights

- Industrial auto segment (CV, earth moving equipment) is expected to provide a push to the SCS segment (triggers include BS6 pre-buy in the CV segment)
- The company continues to build capacity in its SCS and shipping division
- We expect revenue, EBITDA, PAT CAGR of 13%, 17%, 24%, respectively, in FY19-21E
- Maintain BUY

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Key Financial Summary

(Year-end March)	FY16	FY17	FY18	FY19	FY20E	FY21E	CAGR
Revenues (₹ crore)	1,727.0	1,942.5	2,349.9	2,753.7	2,851.4	3,195.6	13.3
EBITDA (₹ crore)	129.4	162.0	216.5	249.5	260.9	306.8	17.3
Adjusted Net Profit (₹ crore)	56.5	82.0	123.2	144.4	174.6	196.7	24.4
EPS (₹)	7.4	10.7	16.1	18.8	22.8	25.7	
P/E (x)	24.4	25.8	17.3	14.8	12.2	10.9	
Price / Book (x)	3.7	3.3	2.8	2.4	2.0	1.7	
EV/EBITDA (x)	18.1	14.8	11.2	9.8	9.0	7.5	
RoCE (%)	9.2	10.7	13.4	14.2	12.8	14.2	
RoNW (%)	15.2	12.8	16.3	16.3	16.6	15.9	

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Revenue	628.2	668.1	620.3	1.3	612.1	2.6	YoY growth of mere 1%, mainly due to de-growth in SCS (5%), which was negated by growth in the freight (4%) and seaways division (8%)
Operating Expenses	506.2	539.2	506.6	-0.1	494.2	2.4	
Employee Expenses	37.4	38.7	34.7	7.8	37.2	0.3	
Administrative & Oth Expenses	28.1	30.1	25.9	8.7	24.5	15.0	
Total Expense	571.7	608.0	567.2	0.8	555.9	2.8	
EBITDA	56.6	60.1	53.1	6.5	56.2	0.6	
EBITDA Margin (%)	9.0	9.0	8.6	44 bps	9.2	-18 bps	Margins in line with estimates
Depreciation	19.0	19.7	19.1	-0.4	18.6	2.0	
Interest	7.7	9.6	9.3	-17.2	8.2	-6.6	
Other Income	8.4	7.0	8.1	2.8	7.5	10.9	
Exceptional Gain/Loss	-9.9	0.0	0.0	0.0	0.0	0.0	
PBT	28.4	37.9	32.9	-13.7	36.9	-23.1	
Total Tax	-4.9	7.3	7.0	-170.1	7.2	-168.7	Deferred tax write-back leads to negative tax rate
PAT	33.3	30.5	25.9	28.6	29.7	11.9	
Key Metrics	Q2FY20	Q2FY20E	Q2FY19	YoY	Q1FY20	QoQ	
Freight Division	305.8	316.6	293.2	4.3	299.0	2.3	Mostly volume led growth (mainly from SMEs)
Supply Chain Solutions	241.3	260.3	255.2	-5.4	239.1	0.9	
Seaways	85.4	90.7	78.8	8.3	78.9	8.3	

Source: Company, ICICI Direct Research

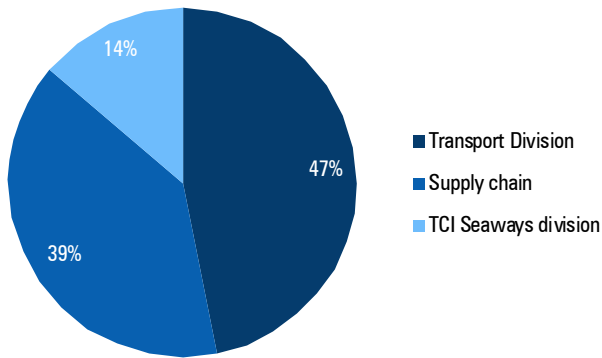
Exhibit 2: Change in estimates

(₹ Crore)	FY20E					FY21E			Comments
	FY18	FY19	Old	New	% Change	Old	New	% Change	
Revenue	2,349.9	2,753.7	3,051.4	2,851.4	-6.6	3,523.6	3,195.6	-9.3	Revenue estimates lowered mainly due to lower-than-expected growth from freight, shipping and SCM verticals
EBITDA	216.5	249.5	283.8	260.9	-8.1	352.4	306.8	-12.9	
EBITDA Margin (%)	9.2	9.1	9.3	9.1	-15 bps	10.0	9.6	-40 bps	Margins impacted by unfavourable product mix
PAT	123.2	144.4	164.1	174.6	6.4	218.1	196.7	-9.8	
EPS (₹)	16.1	18.8	21.4	22.8	6.4	28.5	25.7	-9.8	

Source: Company, ICICI Direct Research

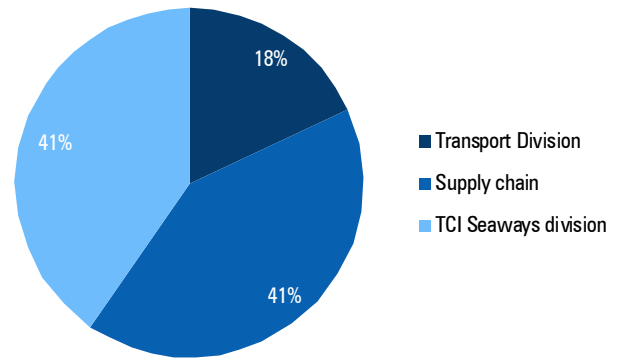
Key Metrics

Exhibit 3: Segmental revenues (standalone)



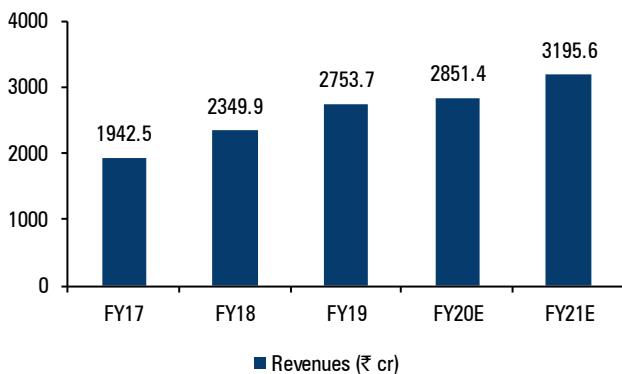
Source: ICICI Direct Research, Company

Exhibit 4: Segmental EBITDA (standalone)



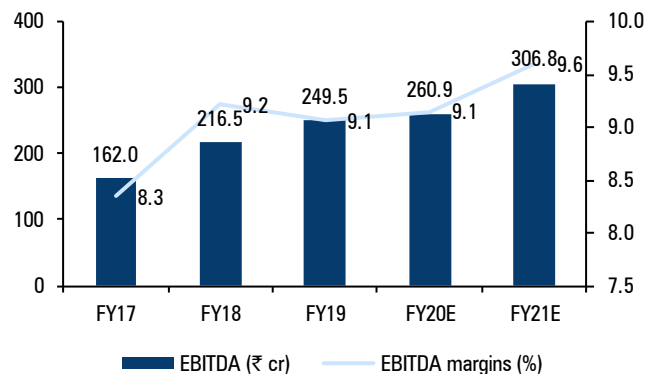
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 8% (FY19-21) CAGR



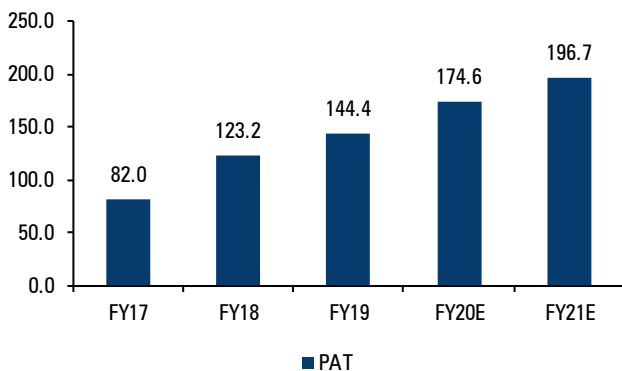
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA expected to grow at 11% CAGR (FY19-21)



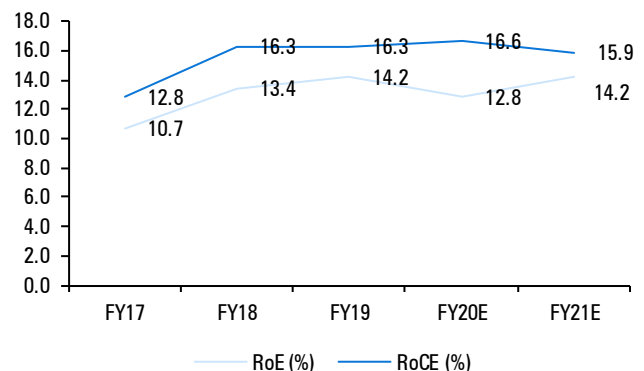
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 17% CAGR (FY19-21)



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1942.5	12.5	10.7	43.9	32.0	14.8	12.8	10.7
FY18	2349.9	21.0	16.1	50.2	21.2	11.2	16.3	13.4
FY19	2753.7	17.2	18.8	17.2	17.8	9.8	16.3	14.2
FY20E	2851.4	3.5	22.8	20.9	15.8	9.0	16.6	12.8
FY21E	3195.6	12.1	25.7	12.6	13.1	7.5	15.9	14.2

Source: Company, ICICI Direct Research

Valuation and Outlook

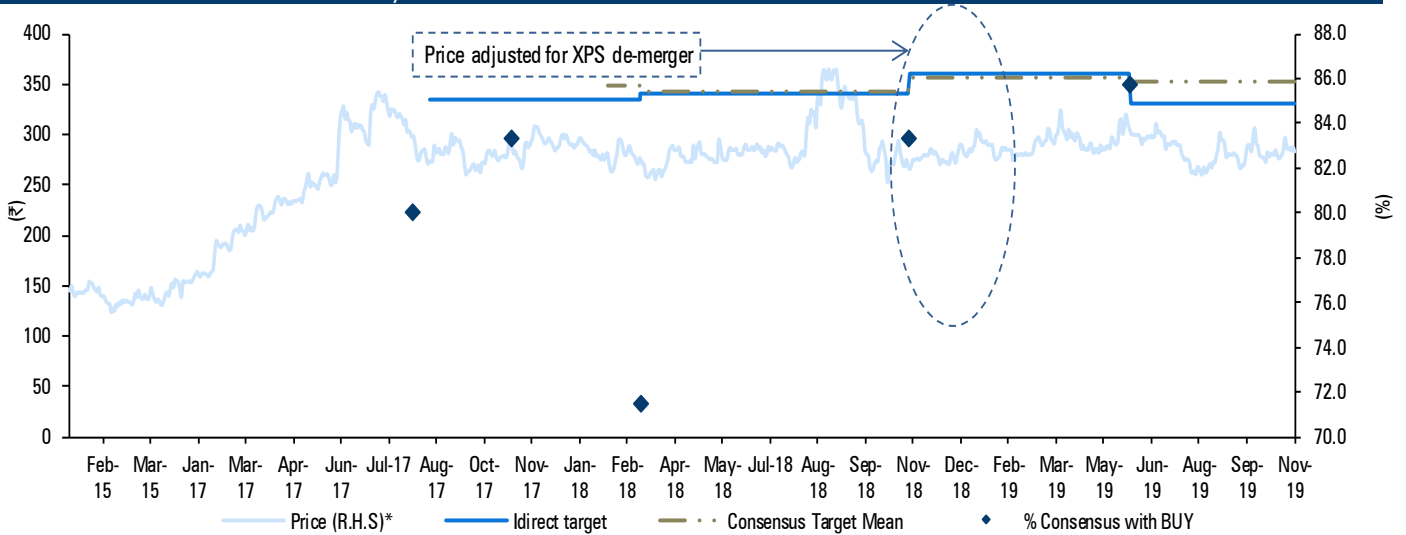
Post H1FY20, the management has trimmed down its capex guidance for the rest of the year (₹ 125 crore from earlier ₹ 275 crore). However, the management would weigh options such as lower BS-IV truck prices in H2. The company has expanded its e-commerce partnership (15-20% uptick), acquired fulfilment centres and added capacity during the quarter. We believe utilisation of capacity in the medium term, will push TCI towards blended margins of ~10% with an RoCE of ~14%. With multi-modal capabilities, we believe TCI has developed a strong moat around its business thereby delivering sustainable growth rates. On an SOTP basis, we value the company at ₹ 330/share with a **BUY** recommendation on the stock.

Exhibit 10: SOTP valuation

Segment	Standalone EBITDA (FY21E) ₹ crore	EV (x)	EV (₹ crore)
Freight	55.9	6	335
Supply Chain	117.1	9	1054
Seaways	167.4	7	1143
Enterprise Value			2532
Net Debt (FY21E)			104
Market Value (Ex-TCI-Concor, Transystem)			2429
Subsidiary	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:TCI-Concor (51% st	128	0.4	51
Joint Venture	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:Transystem (49% ε	358	0.4	143
Holding company discount (50%)			97
Target Market Value			2526
No of Shares			7.7
Per Share Value			330

Source: ICICI Direct Research

Exhibit 11: Recommendation history vs. Consensus



Source: ICICI Direct Research, Reuters

Exhibit 12: Shareholders

Rank	Investor Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Bhoruka Supply Chain Solutions Holdings	30-Sep-19	0.45	34.2
2	TCI Group	30-Jun-19	0.08	6.4
3	Agarwal (Dharmpal P.)	30-Sep-19	0.08	5.8
4	IDFC Asset Management Company Privat	30-Sep-19	0.04	3.2
5	Canara Robeco Asset Management Com	30-Sep-19	0.03	2.3
6	Agarwal (Dharmpal) HUF	30-Sep-19	0.03	2.0
7	Arcee Holding, Ltd.	30-Sep-19	0.03	2.0
8	Agarwal (Vineet)	30-Sep-19	0.03	2.0
9	Agarwal (Priyanka)	30-Sep-19	0.03	1.9
10	Agarwal (Urmila)	30-Sep-19	0.02	1.9

Source: ICICI Direct Research, Reuters, Company

Exhibit 13: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	66.9	66.9	66.9	66.8
FII	1.9	1.9	1.9	1.8
DII	8.4	8.4	9.2	9.2
Others	22.8	22.8	22.0	22.2

Source: ICICI Direct Research, Reuters, Company

Exhibit 14: Recent Activity

Buy			Sell		
Investor Name	Value	Shares	Investor Name	Value	Shares
IDFC Asset Management Company Private Limited	0.37	0.08	Bhoruka Finance Corporation of India, Ltd.	-60.57	-15.90
Singh (Ajit)	0.15	0.04	Bhoruka International Pvt. Ltd.	-40.33	-10.59
Principal Asset Management Private Limited	0.11	0.03	XPS Cargo Services, Ltd.	-4.73	-1.24
Kumar (Bhaiya Sumit)	0.06	0.02	Canara Robeco Asset Management Company Ltd.	-0.61	-0.14
Sigar (Ishwar Singh)	0.06	0.02	State Street Global Advisors (US)	-0.11	-0.02

Source: ICICI Direct Research, Reuters

Financial Summary

Exhibit 15: Profit & Loss Statement					Exhibit 16: Cash flow Statement				
₹ crore					₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E	(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	2,349.9	2,753.7	2,851.4	3,195.6	Profit after Tax	123.2	144.4	174.6	196.7
Growth (%)	21.0	17.2	3.5	12.1	Add: Depreciation	68.7	77.4	90.0	102.0
Operating expense	1,906.8	2,251.5	2,322.4	2,598.0	Add: Interest Expense	32.2	37.4	31.8	25.0
Manpower Cost	124.5	140.2	151.1	163.0	Cash Profit	224.0	259.2	296.5	323.7
Admin & other expense	102.1	112.4	116.9	127.8	Increase/(Decrease) in CL	-91.5	-130.9	-19.4	-68.0
Total Expense	2,133.4	2,504.1	2,590.5	2,888.8	(Increase)/Decrease in CA	32.2	73.9	7.0	12.7
EBITDA	216.5	249.5	260.9	306.8	Others	-7.9	-19.1	0.0	0.0
Growth (%)	33.6	15.3	4.6	17.6	CF from Operating Activities	156.8	183.0	284.0	268.4
Depreciation	68.7	77.4	90.0	102.0	Purchase of Fixed Assets	-151.1	-125.9	-150.2	-150.2
EBIT	147.9	172.1	170.9	204.8	(Inc)/Dec in Investments	-17.9	-5.1	-11.7	-12.9
Interest	32.2	37.4	31.8	25.0	Others	31.7	-20.4	0.8	0.8
Other Income	14.4	19.5	18.5	20.8	CF from Investing Activities	-137.2	-151.4	-161.2	-162.3
PBT	130.1	154.2	157.6	200.5	Inc/(Dec) in Loan Funds	15.8	18.9	-40.0	-80.0
Growth (%)	50.8	18.6	2.2	27.2	Inc/(Dec) in Share Capital	0.0	0.0	0.0	0.0
Tax	28.7	33.3	22.1	36.1	Less: Interest Expense	-32.2	-37.4	-31.8	-25.0
Reported PAT	101.4	120.9	135.5	164.4	Others	-7.7	-11.8	-9.2	-9.2
Growth (%)	51.1	19.2	12.1	21.3	CF from financing activities	-24.1	-30.3	-81.0	-114.2
Share of Profit from JV	22.4	25.1	30.1	33.1	Change in cash Eq.	-4.6	1.4	41.9	-8.2
Minority Interest	0.6	0.9	0.9	0.9	Op. Cash and cash Eq.	18.7	14.2	15.5	57.4
Adjusted PAT	123.2	145.1	164.8	196.7	Cl. Cash and cash Eq.	14.2	15.5	57.4	49.2
EPS	16.1	18.8	22.8	25.7					

Source: ICICI Direct Research

Source: ICICI Direct Research

Exhibit 17: Balance Sheet					Exhibit 18: Key Ratios				
₹ crore									
(Year-end March)	FY18	FY19	FY20E	FY21E	(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds					Per share data (₹)				
Equity Capital	15.3	15.3	15.3	15.3	Book Value	99.4	116.4	138.0	162.4
Reserves & Surplus	746.5	876.6	1,042.1	1,229.5	Cash per share	55.4	67.2	69.3	77.7
Shareholder's Fund	761.8	892.0	1,057.4	1,244.9	EPS	16.1	18.9	21.5	25.7
Loan Funds	395.3	414.2	374.2	294.2	Cash EPS	22.2	25.9	29.4	34.8
Deferred Tax Liability	44.5	39.0	39.8	40.6	DPS	1.1	1.6	1.8	1.0
Minority Interest	4.7	5.2	5.2	5.2	Profitability & Operating Ratios				
Govt Grant	1.8	2.0	2.0	2.0	EBITDA Margin (%)	9.2	9.1	9.1	9.6
Long Term Provisions	0.0	0.0	0.0	0.0	PAT Margin (%)	4.3	4.4	4.8	5.1
Source of Funds	1208.0	1352.3	1478.6	1586.8	Fixed Asset Turnover (x)	3.8	3.8	3.6	3.8
Application of Funds					Inventry Turnover (Days)	0.5	0.7	0.7	0.7
Gross Block	796.9	975.3	1,125.3	1,275.3	Debtor (Days)	66.0	68.3	68.0	68.0
Less: Acc. Depreciation	171.1	248.5	338.5	440.6	Current Liabilities (Days)	9.3	8.9	9.0	9.0
Net Block	625.8	726.8	786.8	834.8	Return Ratios (%)				
Capital WIP	56.3	4.0	4.2	4.4	RoE	16.3	16.3	16.6	15.9
Non-Current Investments	104.4	116.8	128.5	141.4	RoCE	13.4	14.2	12.8	14.2
Long Term Loans &	10.0	2.7	2.7	2.8	RoIC	13.6	13.7	12.7	14.0
Other Non-Current Assets	39.4	71.5	71.5	71.5	Valuation Ratios (x)				
Inventories	3.3	5.3	5.5	6.1	P/E	17.4	14.9	12.3	10.9
Debtor	424.9	515.1	531.2	595.3	Price to Book Value	2.8	2.4	2.0	1.7
Cash	14.1	15.5	57.4	49.2	EV/EBITDA	11.2	9.8	9.0	7.5
Loan & Advance, Other CA	119.6	158.3	161.4	164.7	EV/Sales	1.0	0.9	0.8	0.7
Current Liabilities	189.7	263.6	270.6	283.3	Leverage & Solvency Ratios				
Trade Payables	59.7	67.4	70.3	78.8	Debt to equity (x)	0.5	0.5	0.4	0.2
Other Current Liabilities	124.5	189.7	193.5	197.3	Interest Coverage (x)	4.6	4.6	5.4	8.2
Short Term Provisions	5.5	6.5	6.8	7.2	Debt to EBITDA (x)	1.8	1.7	1.4	1.0
Application of Funds	1,208.0	1,352.3	1,478.5	1,586.8	Current Ratio	2.0	2.3	2.3	2.1
					Quick ratio	1.3	1.3	1.3	1.2

Source: ICICI Direct Research

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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