

TRANSPORT CORPORATION OF INDIA

Steady quarter along expected lines

India Equity Research | Logistics

Transport Corporation of India (TCI) delivered headline Q3FY19 numbers in line with our estimates with growth in top-line of 20% YoY and EBITDA of 15% YoY. The freight division surprised positively with 20% YoY growth, while the supply chain division, up 10% YoY, undershot our expectation of 15% YoY. We believe TCI's changing business mix coupled with its attractive valuation (13.7x FY20E EPS) makes it a worthwhile bet. Retain 'BUY' with a target price of INR318.

Earnings in line with stable segmental margins

TCI reported Q3FY19 headline numbers in line with our estimates—YoY growth in sales of 20%, EBITDA 15% and PAT 7.3%. The freight division revenue rose 20% YoY, which we believe is quite healthy considering the subdued road freight scenario in Q3FY19. EBIT margin was also stable at 3.2%, which is a good showing in managing the improvement in business mix. TCI's Supply Chain Solutions division clocked sales and EBIT growth of 10% YoY each while EBIT margin came in at 5.9%. This is slightly lower than our expectations; we had expected growth of 15% for this division. The Seaway division clocked a spike of about 52% YoY in sales growth while EBIT grew at 30% YoY as margins came in ~330bps lower than Q3FY18. The growth in this segment is largely due to the increase in the number of vessels.

3PL sector growth underpins long-term prospects

TCI has built a ~INR10bn 3PL business without a large anchor client, which is creditable in our view. We estimate India's 3PL sector will clock revenue CAGR of 15–17% over the next six–seven years. The company's strategy has been to moderately own assets to make its offerings dependable. We believe this approach will sustain as the company adds more clients. We also estimate the market is undervaluing this segment's long-term potential by 25–30%.

Outlook and valuation: Retain 'BUY'

On a relative valuation methodology, we peg TCI at a PE of 15.3x FY20E EPS. While we see TCI's story as one of moderate growth (given FY18–21E EPS CAGR of 14%), we believe that the market is undervaluing the business potential as the stock's current valuation factors in earnings CAGR of merely 12%. Retain 'BUY' with a target price of INR318.

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: TCIL.BO, B: TRPC IN)

CMP	: INR 285
Target Price	: INR 318
52-week range (INR)	: 376 / 231
Share in issue (mn)	: 76.7
M cap (INR bn/USD mn)	: 22 / 298
Avg. Daily Vol. BSE/NSE ('000)	: 76.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY19	Q1FY19
Promoters *	66.9	66.9	67.0
MF's, FI's & BKs	10.8	10.2	10.6
FII's	1.9	1.9	2.4
Others	20.4	21.0	20.0
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(5.7)	(4.2)	1.5
3 months	(0.4)	(5.9)	(5.5)
12 months	(16.1)	(1.1)	15.0

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Financials

(INR mn)

Year to March	Q3FY19	Q3FY18	% Chg	Q2FY19	% Chg	FY18	FY19E	FY20E
Net revenues	6,625	5,553	19.3	6,203	6.8	21,771	25,535	29,189
EBITDA	605	526	15.0	531	13.9	2,086	2,500	2,883
Adjusted Profit	300	279	7.3	259	15.8	1,118	1,175	1,312
Adjusted Diluted EPS	3.9	3.6	7.0	3.4	15.6	14.6	15.3	17.1
Diluted P/E (x)							15.2	13.7
ROAE (%)							10.9	10.7

Financial snapshot								(INR mn)
Year to March	Q3FY19	Q3FY18	% change	Q2FY19	% change	YTD19	FY19E	FY20E
Net revenues	6,625	5,553	19.3	6,203	6.8	18,643	25,535	29,189
Gross profit	1,186	1,053	12.7	1,136	4.4	3,423	5,210	5,979
Other expenses	242	231	4.6	259	(6.6)	755	1,257	1,435
Operating expenses	5,438	4,501	20.8	5,066	7.3	15,219	20,324	23,210
EBITDA	605	526	15.0	531	13.9	1,649	2,500	2,883
Depreciation	205	176	16.0	191	7.4	563	798	978
EBIT	400	350	14.4	341	17.6	1,086	1,701	1,905
Other income	81	72	12.8	81	0.1	245	160	170
Add: Exceptional items								
Profit before tax	380	343	10.7	329	15.5	1,066	1,488	1,661
Provision for taxes	80	64	25.7	70	14.7	226	312	349
Minority interest								
Associate profit share								
Profit- Discontinued Ops								
Reported net profit	300	279	7.3	259	15.8	840	1,175	1,312
Adjusted Profit	300	279	7.3	259	15.8	840	1,175	1,312
Diluted shares (mn)	77	77		77		77	77	77
Adjusted Diluted EPS	3.9	3.6	7.0	3.4	15.6	10.9	15.3	17.1
Diluted P/E (x)	-	-		-		-	14.7	13.2
EV/EBITDA (x)	-	-		-		-	10.2	8.9
ROAE (%)	-	-		-		-	10.9	10.7
As % of net revenues								
Employee cost	5.1	5.3		5.6		5.5	5.7	5.7
Other expenses	3.6	4.2		4.2		4.0	4.9	4.9
Operating expenses	82.1	81.0		81.7		81.6	79.6	79.5
EBITDA	9.1	9.5		8.6		8.8	9.8	9.9
Reported net profit	4.5	5.0		4.2		4.5	4.6	4.5

Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 10.5 million square feet of warehousing space.

Investment Theme

We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high-margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for 15-17% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential of TCIL's 3PL segment by at least 25-30%.

Key Risks

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis.

Financial Statements

Key Assumptions

Year to March	FY18	FY19E	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	7.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Logistics sector size (USD bn)	200	218	238	259
Company				
TCI Freight sales growth %	12	17	12	12
TCI Freight EBITDA margin (%)	4	3	3	3
Realisation per tonne per km (INR)	2	2	2	3
TCI Seaways EBITDA margin (%)	34	28	28	28
Realisation per DWT	68,619	68,000	68,000	68,000
TCI Seaways sales growth %	62	18	15	9
TCI Corp and Others sales growth %	76	73	73	73
Ship capacity (DWT)	63,380	86,640	86,640	86,640
Total tonnage for fleet for 1 year (mn tonne)	4,936	5,395	5,544	5,694
TCI Supply Chain Solutions sales growth %	24	14	17	17

Income statement

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Net revenue	23,461	27,478	31,424	35,762
Gross profit	4,393	5,339	6,126	6,967
Employee costs	1,245	1,496	1,709	1,944
Other Expenses	1,021	1,295	1,480	1,683
Operating expenses	19,068	22,140	25,298	28,795
Total operating expenses	21,334	24,931	28,486	32,421
EBITDA	2,127	2,548	2,938	3,341
Depreciation	686	808	992	1,127
EBIT	1,441	1,739	1,946	2,213
Less: Interest Expense	322	388	434	406
Add: Other income	181.78	160.41	170.07	155.31
Profit Before Tax	1,301	1,511	1,682	1,962
Less: Provision for Tax	287	319	355	415
Associate profit share	224	247	271	298
Reported Profit	1,238	1,438	1,598	1,846
Adjusted Profit	1,238	1,438	1,598	1,846
Shares o /s (mn)	77	77	77	77
Adjusted Basic EPS	16.2	18.8	20.9	24.1
Diluted shares o/s (mn)	77	77	77	77
Adjusted Diluted EPS	16.2	18.8	20.8	24.1
Adjusted Cash EPS	25.8	29.3	33.8	38.8
Dividend per share (DPS)	1.6	1.8	2.1	2.4
Dividend Payout Ratio(%)	9.9	9.8	9.9	9.9

Common size metrics

Year to March	FY18	FY19E	FY20E	FY21E
Gross margin	18.7	19.4	19.5	19.5
Operating expenses	4.4	4.7	4.7	4.7
Interest Expense	1.4	1.4	1.4	1.1
EBITDA margins	9.1	9.3	9.4	9.3
EBIT margins	6.1	6.3	6.2	6.2
Net Profit margins	5.3	5.2	5.1	5.2

Growth ratios (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	20.8	17.1	14.4	13.8
EBITDA	31.3	19.8	15.3	13.7
Adjusted Profit	52.4	16.2	11.1	15.5
EPS	52.1	16.2	11.1	15.5

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19E	FY20E	FY21E	
Share capital	153	153	153	153	
Reserves & Surplus	7,465	8,487	9,626	10,953	
Shareholders' funds	7,618	8,641	9,779	11,106	
Minority Interest	47	47	47	47	
Long term borrowings	1,514	2,114	1,989	1,764	
Short term borrowings	2,439	3,139	3,064	2,889	
Total Borrowings	3,953	5,253	5,053	4,653	
Long Term Liabilities	18	18	18	18	
Def. Tax Liability (net)	445	445	445	445	
Sources of funds	12,080	14,403	15,341	16,269	
Gross Block	7,696	10,246	11,796	13,296	
Net Block	6,252	7,994	8,552	8,924	
Capital work in progress	563	563	563	563	
Intangible Assets	6	6	6	6	
Total net fixed assets	6,821	8,563	9,121	9,493	
Non current investments	1,044	1,044	1,044	1,044	
Cash and Equivalents	142	291	80	(17)	
Inventories	33	35	40	45	
Sundry Debtors	4,249	4,672	5,343	6,082	
Loans & Advances	136	136	136	136	
Other Current Assets	1,062	1,062	1,062	1,062	
Current Assets (ex cash)	5,480	5,905	6,581	7,325	
Trade payable	597	590	674	767	
Other Current Liab	1,300	1,300	1,300	1,300	
Total Current Liab	1,897	1,890	1,975	2,068	
Net Curr Assets-ex cash	3,582	4,015	4,606	5,258	
Uses of funds	12,080	14,403	15,341	16,269	
BVPS (INR)	99.5	112.8	127.7	145.0	

Free cash flow		(INR mn)			
Year to March	FY18	FY19E	FY20E	FY21E	
Reported Profit	1,238	1,438	1,598	1,846	
Add: Depreciation	686	808	992	1,127	
Interest (Net of Tax)	216	260	291	272	
Others	(682)	(1,144)	(1,482)	(1,622)	
Less: Changes in WC	(342)	(433)	(592)	(651)	
Operating cash flow	1,801	1,796	1,991	2,275	
Less: Capex	(1,511)	(2,730)	(1,550)	(1,500)	
Free Cash Flow	291	(934)	441	775	

Cash flow metrics		FY18	FY19E	FY20E	FY21E
Year to March					
Operating cash flow		1,801	1,796	1,991	2,275
Financing cash flow		(303)	922	(823)	(1,026)
Investing cash flow		(1,543)	(2,570)	(1,380)	(1,345)
Net cash Flow		(44)	148	(211)	(96)
Capex		(1,511)	(2,730)	(1,550)	(1,500)
Dividend paid		(163)	(169)	(189)	(220)

Profitability and efficiency ratios		FY18	FY19E	FY20E	FY21E
Year to March					
ROAE (%)		17.6	17.7	17.4	17.7
ROACE (%)		14.8	14.9	14.7	15.4
ROA		10.9	10.9	10.7	11.7
Debtors Days		72	67	66	66
Payable Days		10	8	8	8
Cash Conversion Cycle		62	59	58	58
Current Ratio		3.0	3.3	3.4	3.5
Debt/EBITDA (x)		1.9	2.1	1.7	1.4
Adjusted Debt/Equity		0.5	0.6	0.5	0.4
Net Debt/Equity		0.5	0.6	0.5	0.4
Interest Coverage Ratio		4.5	4.5	4.5	5.4
LT debt /Cap empl. (%)		12.5	14.7	13.0	10.8
Debt / Cap employed (%)		32.7	36.5	32.9	28.6

Operating ratios		FY18	FY19E	FY20E	FY21E
Year to March					
Total Asset Turnover		2.1	2.1	2.1	2.3
Fixed Asset Turnover		4.0	3.9	3.8	4.1
Equity Turnover		3.3	3.4	3.4	3.4

Valuation parameters		FY18	FY19E	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)		16.2	18.8	20.8	24.1
Y-o-Y growth (%)		52.1	16.2	11.1	15.5
Adjusted Cash EPS (INR)		25.8	29.3	33.8	38.8
Diluted P/E (x)		17.6	15.2	13.7	11.8
P/B (x)		2.9	2.5	2.2	2.0
EV / Sales (x)		1.1	1.0	0.9	0.7
EV / EBITDA (x)		12.1	10.5	9.1	7.9
Dividend Yield (%)		0.6	0.6	0.7	0.8

Additional Data

Directors Data

Dharmpal Agarwal	Managing Director	Vineet Agarwal	Managing Director
Jasjit Sethi	CEO	Ishwar Sigar	CEO
Swaminatha Reddy Onteddu	Director	Vijay Sankar	Director
Susim Datta	Director	Satyanarayan Agarwal	Director
Karna Mehta	Director	Mahabir Sarawagi	Director
Ashish Bharat Ram	Director	Chander Agarwal	Director
Urmila Agarwal	Director		

Auditors - Brahmayya & Co.

**as per last available data*

Holding – Top10

	Perc. Holding		Perc. Holding
Canara Robeco AMC	3.74	IDFC Mutual Fund	3.21
Canara Robeco Mutual Fund	2.69	Dimensional Fund Advisors	1.42
GIC Asset Management	0.61	JPMorgan Chase	0.51
LIC Nomura Mutual Fund	0.3	HDFC Asset Management	0.26
IDBI Asset Management	0.19	Sundaram Asset Management	0.06

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s):

Blue Dart Express Ltd, Container Corporation of India Ltd, Future Supply Chain, Mahindra Logistics Ltd, TCI Express Ltd, Transport Corporation of India, VRL Logistics Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
12-Feb-19	TCI Express	Scale benefits fuelling bottom-line growth; <i>Result Update</i>	621	Buy
11-Feb-19	VRL Logistics	Hauling weak outlook; <i>Result Update</i>	249	Hold
11-Feb-19	Logistics	Container rail growth rolls on; sector update; <i>Monthly Update</i>		

Distribution of Ratings / Market Cap

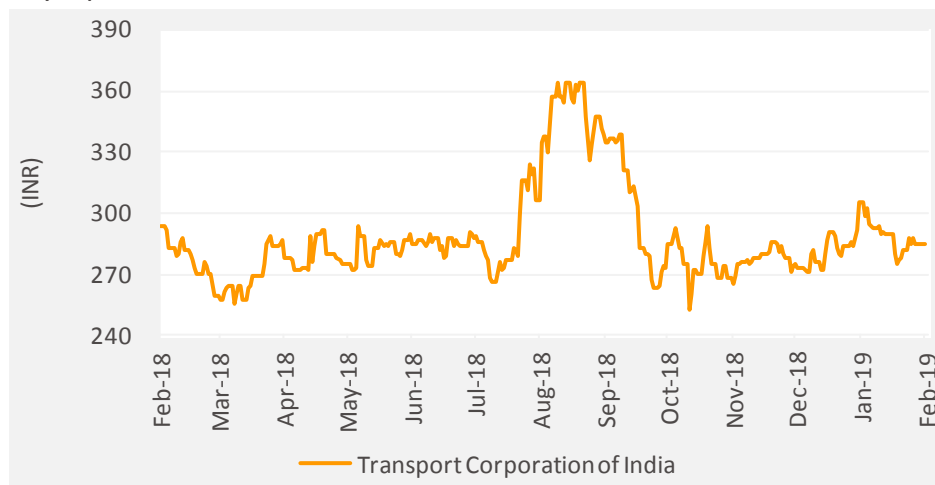
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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