

# TRANSPORT CORPORATION OF INDIA

## Soft performance



India Equity Research | Logistics

Transport Corporation of India (TCI) reported a soft Q3FY20 with flat sales YoY and PAT growth of about 3% YoY. While FY20 has been challenging so far given sluggish goods movement, we view the overall 9MFY20 performance as relatively resilient. We are bullish on TCI as an improving business mix should lift its margin and returns profile over the next two–three years, which can potentially drive the stock’s re-rating. Moreover, the stock’s current 12x one-year forward PE valuation is attractive, and implies limited downside. Factoring in industry-wide subdued goods movement, we are revising down FY20/21 estimates by 9% each, which yield a TP of INR319 (versus INR330 earlier). Retain ‘BUY’.

### Performance soft along expected lines

For Q3FY20, TCI delivered flat sales growth and PAT growth of 3% YoY amid the broad-based sluggishness in goods movement. The freight division reported revenue growth of 4% YoY, wherein the LTL component is growing. We believe this is likely to have led to margin expansion of ~30bps YoY. Much along expected lines, the supply chain division turned in a weak showing, with its revenue dipping ~7% YoY and margin contracting ~50bps YoY given its heavy reliance on the auto sector (which is trudging through the economic slowdown). Seaways revenue was flat YoY and reported an EBIT margin of 22.9% (18.8% in Q3FY19).

### Business mix improving

Our investment rationale for TCI is based on a great improvement in its underlying business mix over the next two–three years. The company is targeting higher-margin LTL mix of 40% in the freight division (~30% currently). While slow in FY20, the supply chain division is part of the fast-growing 3PL category, which is expected to log 13–15% CAGR over five–seven years. Furthermore, TCI is aggressively adding capacity in the seaways business a high-return proposition. Overall, TCI’s focus on establishing multi-modal capabilities should show up in its growth over the next four–five years.

### Outlook and valuation: Retain ‘BUY’

Factoring in the current economic environment, we are revising down the estimates for FY20 and FY21 by 9% each. We see TCI’s story as one of moderate growth (FY19–22E EPS CAGR of 15%), and believe the market is undervaluing the business potential. Retain ‘BUY’ with a revised SoTP-based target price of INR319 (from INR365), implying a one-year forward PE of 14.3x.

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	None

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

CMP	: INR 271
Target Price	: INR 319
52-week range (INR)	: 328 / 250
Share in issue (mn)	: 76.8
M cap (INR bn/USD mn)	: 21 / 292
Avg. Daily Vol. BSE/NSE ('000)	: 36.7

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY20	Q1FY20
Promoters *	66.8	66.8	66.9
MF's, FI's & BKs	9.9	12.4	12.5
FII's	1.8	1.8	1.9
Others	21.4	18.9	18.7
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	3.9	1.5	(2.4)
3 months	5.8	(8.6)	(14.5)
12 months	7.3	(1.8)	(9.1)

#### Financials

(INR mn)

Year to March	Q3FY20	Q3FY19	% Chg	Q2FY20	% Chg	FY19	FY20E	FY21E
Net revenues	7,063	7,108	(0.6)	6,846	3.2	27,537	28,085	30,577
EBITDA	648	610	6.2	587	10.4	2,495	2,612	2,954
Adjusted Profit	344	333	3.2	382	(10.1)	1,453	1,490	1,728
Adjusted Diluted EPS	4.4	4.4	1.8	4.9	(10.1)	18.8	19.3	22.4
Diluted P/E (x)							14.1	12.1
ROAE (%)							10.4	11.0

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## Financial snapshot

(INR mn)

Year to March	Q3FY20	Q3FY19	% change	Q2FY20	% change	YTD20	FY20E	FY21E
Net revenues	7,063	7,108	(0.6)	6,846	3.2	20,501	28,085	30,577
Gross profit	1,271	1,208	5.2	1,270	0.1	3,764	5,205	5,757
Other expenses	240	247	(2.6)	297	(18.9)	792	1,047	1,133
Operating expenses	5,792	5,900	(1.8)	5,576	3.9	16,737	22,880	24,820
EBITDA	648	610	6.2	587	10.4	1,820	2,612	2,954
Depreciation	215	208	3.4	203	5.8	617	840	946
EBIT	433	403	7.7	384	12.8	1,202	1,772	2,009
Other income	57	49	17.2	41	39.8	134	185	212
Add: Exceptional items	19	83	(77.2)	(7)	(371.4)	96	160	200
Profit before tax	420	428	(1.8)	336	25.2	1,173	1,766	2,069
Provision for taxes	77	95	(19.3)	(47)	(264.2)	102	276	340
Minority interest								
Associate profit share								
Profit- Discontinued Ops	-	-		-		-	-	1
Reported net profit	344	333	3.2	382	(10.1)	1,071	1,490	1,728
Adjusted Profit	344	333	3.2	382	(10.1)	1,071	1,490	1,728
Diluted shares (mn)	78	77		78		78	77	77
Adjusted Diluted EPS	4.4	4.4	1.8	4.9	(10.1)	13.8	19.3	22.4
Diluted P/E (x)	-	-		-		-	14.1	12.1
EV/EBITDA (x)	-	-		-		-	9.5	8.3
ROAE (%)	-	-		-		-	10.4	11.0
<b>As % of net revenues</b>								
Employee cost	5.4	4.9		5.6		5.6	5.5	5.5
Other expenses	3.4	3.5		4.3		3.9	3.7	3.7
Operating expenses	82.0	83.0		81.5		81.6	81.5	81.2
EBITDA	9.2	8.6		8.6		8.9	9.3	9.7
Reported net profit	4.9	4.7		5.6		5.2	5.3	5.7

## 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	FY19	FY20E	FY21E	FY22E
<b>Macro</b>				
GDP(Y-o-Y %)	6.8	6.3	6.8	7.1
Inflation (Avg)	3.4	3.7	4.0	4.5
Repo rate (exit rate)	6.3	4.5	4.5	5.0
USD/INR (Avg)	70.0	71.0	71.0	72.0
<b>Sector</b>				
Logistics sector size (USD bn)	218	238	259	-
<b>Company</b>				
TCI Freight	17	(2)	4	13
TCI Freight	4	3	3	3
Realisation per tonne per km (INR)	2	2	2	2
TCI Seaways	31	22	22	23
Realisation per DWT	109,321	85,000	85,000	85,000
TCI Seaways	39	13	18	-
TCI Corp and Others	52	50	45	45
Ship capacity (DWT)	63,380	86,640	86,640	86,640
Total tonnage for entire fleet for 1 year (mn)	4,936	5,289	5,289	5,712
TCI Supply Chain Solutions	11	-	10	13

### Income statement

Year to March	FY19	FY20E	FY21E	FY22E
(INR mn)				
Net revenue	27,537	28,085	30,577	34,064
Gross profit	5,021	5,205	5,757	6,418
Employee costs	1,402	1,545	1,670	1,857
Other Expenses	1,124	1,047	1,133	1,259
Operating expenses	22,515	22,880	24,820	27,646
Total operating expenses	25,041	25,473	27,622	30,762
EBITDA	2,495	2,612	2,954	3,302
Depreciation	774	840	946	1,063
EBIT	1,721	1,772	2,009	2,240
Less: Interest Expense	374	352	352	319
Add: Other income	195.1	185.00	212.31	226.59
Profit Before Tax	1,542	1,606	1,869	2,148
Less: Provision for Tax	333	276	340	475
Associate profit share	244	160	200	220
Reported Profit	1,453	1,490	1,729	1,892
Adjusted Profit	1,453	1,490	1,729	1,892
Shares o/s (mn)	77	77	77	77
Adjusted Basic EPS	18.8	19.3	22.4	24.5
Diluted shares o/s (mn)	77	77	77	77
Adjusted Diluted EPS	18.8	19.3	22.4	24.5
Adjusted Cash EPS	28.8	30.1	34.6	38.2
Dividend per share (DPS)	2.0	2.2	2.4	2.6
Dividend Payout Ratio(%)	10.6	11.4	10.6	10.5

### Common size metrics

Year to March	FY19	FY20E	FY21E	FY22E
Gross margin	18.2	18.5	18.8	18.8
Operating expenses	4.1	3.7	3.7	3.7
Interest Expense	1.4	1.3	1.2	0.9
EBITDA margins	9.1	9.3	9.7	9.7
EBIT margins	6.2	6.3	6.6	6.6
Net Profit margins	5.3	5.3	5.7	5.6

### Growth ratios (%)

Year to March	FY19	FY20E	FY21E	FY22E
Revenues	17.2	2.0	8.9	11.4
EBITDA	15.3	4.7	13.1	11.8
Adjusted Profit	17.3	2.5	16.1	9.4
EPS	16.4	2.5	16.1	9.4

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20E	FY21E	FY22E	
Share capital	153	153	153	153	
Reserves & Surplus	8,766	10,124	11,436	12,871	
Shareholders' funds	8,920	10,278	11,590	13,025	
Minority Interest	52	47	47	47	
Long term borrowings	1,864	2,005	1,780	1,555	
Short term borrowings	2,278	2,451	2,501	2,551	
Total Borrowings	4,142	4,456	4,281	4,106	
Long Term Liabilities	20	20	20	20	
Def. Tax Liability (net)	390	392	392	392	
<b>Sources of funds</b>	<b>13,523</b>	<b>15,192</b>	<b>16,329</b>	<b>17,589</b>	
Gross Block	9,326	11,368	12,868	14,368	
Net Block	7,263	8,308	8,863	9,300	
Capital work in progress	40	40	40	40	
Intangible Assets	5	6	6	6	
Total net fixed assets	7,308	8,354	8,909	9,346	
Non current investments	1,168	1,669	1,669	1,669	
Cash and Equivalents	155	618	823	1,119	
Inventories	53	36	39	43	
Sundry Debtors	5,151	4,769	5,197	5,793	
Loans & Advances	241	229	229	229	
Other Current Assets	1,342	1,309	1,309	1,309	
Current Assets (ex cash)	6,787	6,342	6,773	7,373	
Trade payable	674	602	654	728	
Other Current Liab	1,962	1,604	1,604	1,604	
Total Current Liab	2,636	2,206	2,258	2,332	
Net Curr Assets-ex cash	4,150	4,136	4,515	5,041	
<b>Uses of funds</b>	<b>13,523</b>	<b>15,192</b>	<b>16,329</b>	<b>17,589</b>	
BVPS (INR)	115.7	133.3	150.3	168.9	

Free cash flow		(INR mn)			
Year to March	FY19	FY20E	FY21E	FY22E	
Reported Profit	1,453	1,490	1,729	1,892	
Add: Depreciation	774	840	946	1,063	
Interest (Net of Tax)	250	236	236	213	
Others	(1,367)	334	(1,053)	(1,394)	
Less: Changes in WC	(719)	353	(378)	(526)	
Operating cash flow	1,830	2,545	2,236	2,301	
Less: Capex	(1,259)	(2,049)	(1,500)	(1,500)	
<b>Free Cash Flow</b>	<b>571</b>	<b>496</b>	<b>736</b>	<b>801</b>	

Cash flow metrics		FY19	FY20E	FY21E	FY22E
Year to March					
Operating cash flow		1,830	2,545	2,236	2,301
Financing cash flow		(241)	(304)	(744)	(731)
Investing cash flow		(1,576)	(1,774)	(1,288)	(1,273)
Net cash Flow		13	467	204	297
Capex		(1,259)	(2,049)	(1,500)	(1,500)
Dividend paid		(182)	(202)	(217)	(237)

Profitability and efficiency ratios		FY19	FY20E	FY21E	FY22E
Year to March					
ROAE (%)		17.6	15.5	15.8	15.4
ROACE (%)		15.5	14.0	14.5	14.9
ROA		11.3	10.4	11.0	11.2
Debtors Days		74	63	65	65
Payable Days		10	8	8	8
Cash Conversion Cycle		64	55	57	57
Current Ratio		2.6	3.2	3.4	3.6
Debt/EBITDA (x)		1.7	1.7	1.4	1.2
Adjusted Debt/Equity		0.5	0.4	0.4	0.3
Net Debt/Equity		0.4	0.4	0.3	0.2
Interest Coverage Ratio		4.6	5.0	5.7	7.0
LT debt /Cap empl. (%)		13.8	13.2	10.9	8.8
Debt / Cap employed (%)		30.6	29.3	26.2	23.3

Operating ratios		FY19	FY20E	FY21E	FY22E
Year to March					
Total Asset Turnover		2.2	2.0	1.9	2.0
Fixed Asset Turnover		4.1	3.6	3.6	3.7
Equity Turnover		3.3	2.9	2.8	2.8

Valuation parameters		FY19	FY20E	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)		18.8	19.3	22.4	24.5
Y-o-Y growth (%)		16.4	2.5	16.1	9.4
Adjusted Cash EPS (INR)		28.8	30.1	34.6	38.2
Diluted P/E (x)		14.4	14.1	12.1	11.1
P/B (x)		2.3	2.0	1.8	1.6
EV / Sales (x)		0.9	0.9	0.8	0.7
EV / EBITDA (x)		10.0	9.5	8.3	7.3
Dividend Yield (%)		0.7	0.8	0.9	0.9

## 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.

### Holding Top -10

	Perc. Holding		Perc. Holding
IDFC Mutual Fund	3.8	Canara Robeco AMC	3.1
Dimensional Fund Advisors LP	1.4	Sundaram Asset Management Co Ltd	1.0
Tata Asset Management Ltd	0.7	GIC Asset Management Co Ltd	0.6
JPMorgan Chase & Co	0.5	LIC Nomura Mutual Fund Asset Manag	0.4
IDBI Asset Management Ltd	0.1	Aviva Life Insurance Co India Ltd	0.1

*\*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): Logistics

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
28-Jan-20	<b>TCI Express</b>	Stable performance; operating leverage gains; <i>Result Update</i>	831	Buy
18-Jan-20	<b>Blue Dart Express</b>	Earnings grinding down; <i>Result Update</i>	2,669	Reduce
03-Dec-19	<b>Logistics</b>	3PL warehousing: Front-end consolidation will be key; <i>Sector Update</i>		

### Distribution of Ratings / Market Cap

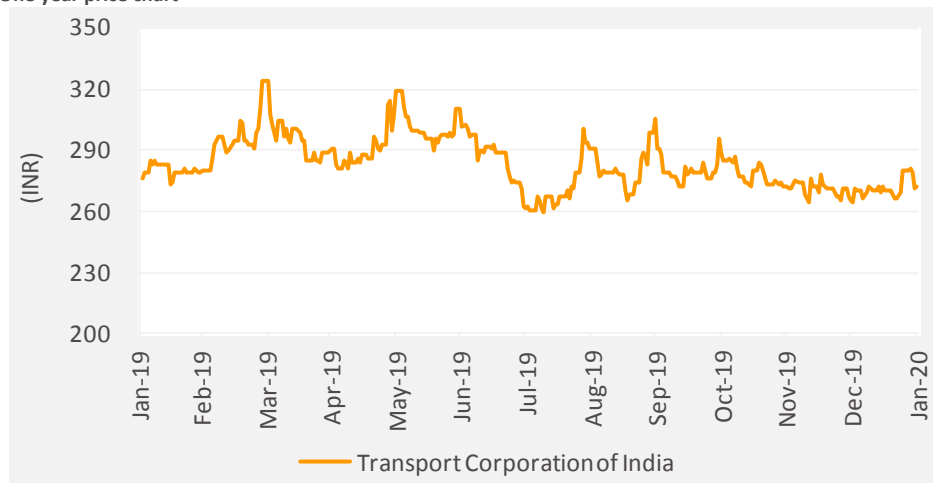
Edelweiss Research Coverage Universe

	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
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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