

# TRANSPORT CORPORATION OF INDIA

## Sailing through turbulent waters

India Equity Research | Logistics



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Transport Corporation of India's (TCI) Q4FY19 top line grew 14%, while PAT jumped 33% YoY. While the general slowdown in goods movement was somewhat reflected in the performance of freight and supply chain divisions, the future change in business mix augurs well. We remain positive on the supply chain business and estimate freight's LTL share to rise to 40% in FY20. To capture this, we revise up FY20/21E PAT 11%/9% and as a result raise TP to INR365 (from INR318). Retain 'BUY'.

### Earnings in line with stable margins

TCI reported another strong quarter with revenue, EBITDA and PAT growing 14%, 27% and 33%, respectively. Freight division clocked 10% YoY revenue growth, despite slowdown in movement of goods, due to favourable LTL-FTL mix, with LTL accounting for over 30% of the division's revenue; consequently, margin improved as well. Supply chain division disappointed with top-line growth of mere 9% due to dependence on the auto sector; however, ~50bps YoY margin improvement provided some respite. Seaways revenue grew 46% in Q4FY19 on account of an additional ship being operational during the quarter compared to the previous year even though margin was lower at ~37% (compared to 44% in Q4FY18).

### 3PL sector growth underpins long-term prospects

Management guided for steady state growth of 15% plus in each of the three major divisions and aggressive capex budget of up to INR2.5bn in FY20. Management is targeting ~40% LTL mix in the freight division and also planning to add another vessel in the seaways division by FY20 end (not factored in 15% plus growth guidance). We believe TCI's supply chain division will clock 15% plus growth in FY20 led by diversified clientele and overall growth in the 3PL segment, which we peg at 15-17%. Overall, we believe, TCI's focus on establishing multi-modal capabilities will reflect in growth over the next four-five years. Hence, while we raise our revenue estimates marginally, we revise our EBITDA and PAT by 6% & 5% for FY20 and 11% & 9% for FY21.

### Outlook and valuation: Retain 'BUY'

On a relative valuation methodology, we value TCI on one-year forward PE of 15.3x. While we see TCI's story as one of moderate growth (given FY19-21E EPS CAGR of 17%), we believe the market is undervaluing the business potential. We retain 'BUY' with revised target price of INR365.

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

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

CMP	: INR 316
Target Price	: INR 365
52-week range (INR)	: 376 / 231
Share in issue (mn)	: 76.7
M cap (INR bn/USD mn)	: 24 / 277
Avg. Daily Vol. BSE/NSE ('000)	: 72.8

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	66.9	66.9	66.9
MF's, FI's & BKs	10.8	10.8	10.2
FII's	1.9	1.9	1.9
Others	20.4	20.4	21.0
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(6.3)	(4.0)	2.4
3 months	0.4	(0.0)	(0.5)
12 months	(11.6)	3.3	14.8

#### Financials

(INR mn)

Year to March	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg	FY19	FY20E	FY21E
Net revenues	6,918	6,053	14.3	6,630	4.3	25,583	29,719	33,395
EBITDA	771	607	27.1	611	26.2	2,442	3,059	3,443
Adjusted Profit	436	327	33.6	300	45.6	1,276	1,483	1,684
Adjusted Diluted EPS	5.7	4.3	33.2	3.9	45.6	16.6	19.3	21.9
Diluted P/E (x)							13.8	12.2
ROAE (%)							12.5	12.8

#### Alok Deshpande

+91 22 6620 3163  
alok.deshpande@edelweissfin.com

#### Sameer Chuglani

+91 22 4040 7415  
sameer.chuglani@edelweissfin.com

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## Financial snapshot

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenues	6,918	6,053	14.3	6,630	4.3	25,583	29,719	33,395
Gross profit	1,443	1,220	18.3	1,192	21.0	4,888	6,196	6,968
Other expenses	334	283	18.2	242	38.2	1,088	1,455	1,634
Operating expenses	5,475	4,833	13.3	5,438	0.7	20,695	23,523	26,427
EBITDA	771	607	27.1	611	26.2	2,442	3,059	3,443
Depreciation	189	162	16.6	205	(7.7)	752	881	1,050
EBIT	582	445	30.9	406	43.3	1,690	2,177	2,393
Other income	46	93	(50.6)	76	(39.5)	269	170	178
Add: Exceptional items	-	40	(100.0)	-	-	-	-	-
Profit before tax	537	427	25.7	380	41.4	1,603	1,926	2,188
Provision for taxes	101	101	0.3	80	25.5	326	443	503
Minority interest								
Associate profit share								
Profit- Discontinued Ops	-	-	-	-	-	-	-	1
Reported net profit	436	327	33.6	300	45.6	1,276	1,483	1,684
Adjusted Profit	436	327	33.6	300	45.6	1,276	1,483	1,684
Diluted shares (mn)	77	77	-	77	-	77	77	77
Adjusted Diluted EPS	5.7	4.3	33.2	3.9	45.6	16.6	19.3	21.9
Diluted P/E (x)	-	-	-	-	-	-	13.8	12.2
EV/EBITDA (x)	-	-	-	-	-	-	9.1	7.9
ROAE (%)	-	-	-	-	-	-	12.5	12.8
Employee cost	4.9	5.5	-	5.1	-	5.3	5.7	5.7
Other expenses	4.8	4.7	-	3.6	-	4.3	4.9	4.9
Operating expenses	79.1	79.9	-	82.0	-	80.9	79.2	79.1
EBITDA	11.1	10.0	-	9.2	-	9.5	10.3	10.3
Reported net profit	6.3	5.4	-	4.5	-	5.0	5.0	5.0

## 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 ~12 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	FY19	FY20E	FY21E
<b>Macro</b>				
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
<b>Sector</b>				
Logistics sector size (USD bn)	200	218	238	259
<b>Company</b>				
TCI Freight sales growth (%)	12	17	15	12
TCI Freight EBITDA margin (%)	4	4	4	4
Realisation per tonne per km (INR)	2	2	2	3
TCI Seaways EBITDA margin (%)	34	31	28	28
Realisation per DWT (INR)	68,619	109,321	85,000	85,000
TCI Seaways sales growth (%)	62	39	22	9
TCI Corp and Others EBITDA margin (%)	76	52	50	50
Ship capacity (DWT)	63,380	63,380	86,640	86,640
Total tonnage for entire fleet for 1 year (mn)	4,936	4,936	5,712	5,871
TCI Supply Chain sales growth (%)	24	11	13	14

### Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	23,499	27,537	31,966	35,978
Gross profit	4,431	5,021	6,349	7,144
Employee costs	1,245	1,402	1,733	1,948
Other Expenses	1,021	1,124	1,496	1,682
Operating expenses	19,068	22,515	25,617	28,835
Total operating expenses	21,334	25,041	28,846	32,465
EBITDA	2,165	2,495	3,120	3,513
Depreciation	686	774	896	1,064
EBIT	1,478	1,721	2,224	2,449
Less: Interest Expense	322	374	440	404
Add: Other income	144.19	195.1	170.04	177.74
Profit Before Tax	1,301	1,542	1,954	2,222
Less: Provision for Tax	287	333	451	514
Associate profit share	224	244	269	295
Reported Profit	1,238	1,453	1,771	2,004
Adjusted Profit	1,238	1,453	1,771	2,004
Shares o /s (mn)	77	77	77	77
Adjusted Basic EPS	16.2	18.8	23.0	26.0
Diluted shares o/s (mn)	77	77	77	77
Adjusted Diluted EPS	16.2	18.8	22.9	25.9
Adjusted Cash EPS	25.8	28.8	34.5	39.7
Dividend per share (DPS)	1.6	2.0	2.3	2.6
Dividend Payout Ratio(%)	9.9	10.6	10.1	10.2

### Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	18.9	18.2	19.9	19.9
Operating expenses	4.3	4.1	4.7	4.7
Interest Expense	1.4	1.4	1.4	1.1
EBITDA margins	9.2	9.1	9.8	9.8
EBIT margins	6.3	6.2	7.0	6.8
Net Profit margins	5.3	5.3	5.5	5.6

### Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	21.0	17.2	16.1	12.6
EBITDA	33.6	15.3	25.0	12.6
Adjusted Profit	52.4	17.3	21.9	13.2
EPS	52.1	16.4	21.9	13.2

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	153	153	153	153	
Reserves & Surplus	7,465	8,603	10,286	11,752	
Shareholders' funds	7,618	8,756	10,439	11,906	
Minority Interest	47	52	47	47	
Long term borrowings	1,514	1,864	1,680	1,455	
Short term borrowings	2,439	2,278	2,451	2,501	
Total Borrowings	3,953	4,142	4,131	3,956	
Long Term Liabilities	18	20	20	20	
Def. Tax Liability (net)	445	390	392	392	
<b>Sources of funds</b>	<b>12,080</b>	<b>13,360</b>	<b>15,029</b>	<b>16,320</b>	
Gross Block	7,696	9,318	11,095	12,595	
Net Block	6,252	7,100	7,980	8,415	
Capital work in progress	563	40	40	40	
Intangible Assets	6	5	6	6	
Total net fixed assets	6,821	7,145	8,026	8,462	
Non current investments	1,044	1,168	1,669	1,669	
Cash and Equivalents	142	155	207	460	
Inventories	33	53	41	46	
Sundry Debtors	4,249	5,151	5,424	6,107	
Loans & Advances	136	241	229	229	
Other Current Assets	1,062	1,342	1,309	1,309	
Current Assets (ex cash)	5,480	6,787	7,002	7,690	
Trade payable	597	674	686	771	
Other Current Liab	1,300	1,962	1,604	1,604	
Total Current Liab	1,897	2,636	2,290	2,375	
Net Curr Assets-ex cash	3,582	4,150	4,713	5,315	
<b>Uses of funds</b>	<b>12,080</b>	<b>13,360</b>	<b>15,029</b>	<b>16,320</b>	
BVPS (INR)	99.5	113.5	135.4	154.4	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	1,238	1,453	1,771	2,004	
Add: Depreciation	686	774	896	1,064	
Interest (Net of Tax)	216	250	295	271	
Others	(682)	(2,043)	(793)	(1,544)	
Less: Changes in WC	(342)	(856)	(223)	(602)	
Operating cash flow	1,801	1,290	2,391	2,397	
Less: Capex	(1,511)	(1,261)	(1,776)	(1,500)	
<b>Free Cash Flow</b>	<b>291</b>	<b>29</b>	<b>615</b>	<b>897</b>	

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	1,801	1,290	2,391	2,397
Financing cash flow	(303)	(369)	(729)	(822)
Investing cash flow	(1,543)	(1,066)	(1,606)	(1,322)
Net cash Flow	(44)	(145)	56	253
Capex	(1,511)	(1,261)	(1,776)	(1,500)
Dividend paid	(163)	(184)	(214)	(243)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	17.6	17.7	18.5	17.9
ROACE (%)	14.8	15.6	17.4	17.2
ROA	10.9	11.4	12.5	12.8
Debtors Days	72	74	67	66
Payable Days	10	10	8	8
Cash Conversion Cycle	62	64	58	57
Current Ratio	3.0	2.6	3.1	3.4
Debt/EBITDA (x)	1.8	1.7	1.3	1.1
Adjusted Debt/Equity	0.5	0.5	0.4	0.3
Net Debt/Equity	0.5	0.5	0.4	0.3
Interest Coverage Ratio	4.6	4.6	5.1	6.1
LT debt /Cap empl. (%)	12.5	14.0	11.2	8.9
Debt / Cap employed (%)	32.7	31.0	27.5	24.2

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	2.1	2.2	2.3	2.3
Fixed Asset Turnover	4.0	4.1	4.2	4.4
Equity Turnover	3.3	3.3	3.3	3.2

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	16.2	18.8	22.9	25.9
Y-o-Y growth (%)	52.1	16.4	21.9	13.2
Adjusted Cash EPS (INR)	25.8	28.8	34.5	39.7
Diluted P/E (x)	19.5	16.8	13.8	12.2
P/B (x)	3.2	2.8	2.3	2.0
EV / Sales (x)	1.2	1.0	0.9	0.8
EV / EBITDA (x)	12.9	11.4	9.1	7.9
Dividend Yield (%)	0.5	0.6	0.7	0.8

## Additional Data

### Directors Data

Dharpal 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
Canara Robeco AMC	3.7	IDFC Mutual Fund	3.5
Dimensional Fund Advisors	1.4	GIC Asset Management	0.6
JPMorgan Chase	0.5	LIC Nomura Mutual Fund	0.3
HDFC Asset Management	0.3	IDBI Asset Management	0.2
Tata Asset Management	0.1	Sundaram Asset Management	0.1

*\*as per last available data*

### Bulk Deals

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

*\*as per last available data*

### Insider Trades

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

*\*as per last available data*

**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: [research@edelweissfin.com](mailto:research@edelweissfin.com)

Aditya Narain

Head of Research

[aditya.narain@edelweissfin.com](mailto:aditya.narain@edelweissfin.com)

## 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-May-19	<b>TCI Express</b>	Gaining muscle; <i>Result Update</i>	692	Buy
20-May-19	<b>VRL Logistics</b>	Rough ride continues; <i>Result Update</i>	271	Hold
17-May-19	<b>Blue Dart Express</b>	Margin tumbles; valuations rich; <i>Result Update</i>	2,915	Reduce

### Distribution of Ratings / Market Cap

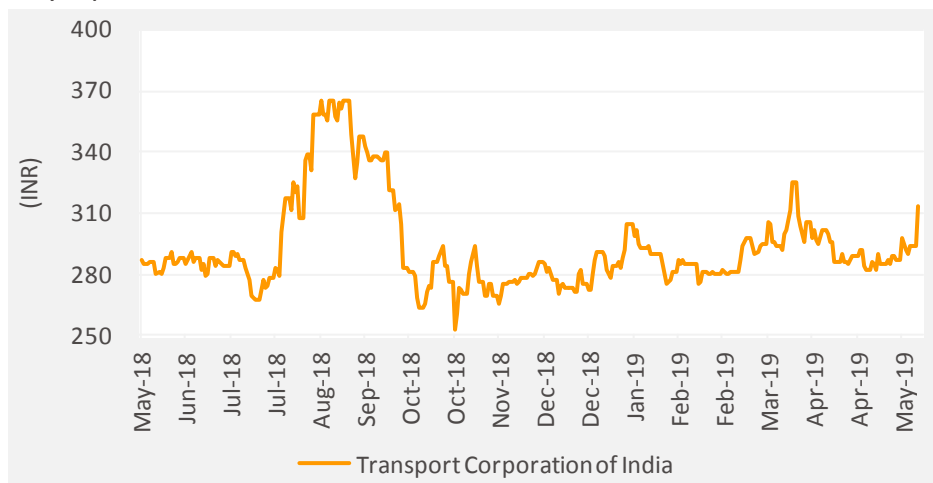
Edelweiss Research Coverage Universe

	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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