February 14, 2019

Transport Corporation (TRACOR) ₹ 275

Performance continues to stay strong...

- Revenues grew 19% YoY to ₹ 663 crore. The freight and shipping division grew 20% and 52% to ₹ 311 crore (I-direct estimate: ₹ 297 crore) and ₹ 100 crore, respectively, whereas, the supply chain division grew a mere 10% to ₹ 261 crore
- EBITDA margins contracted 34 bps to 9.1%. The margins came in above I-direct estimates mainly due to lower admin & other expense to sales ratio (3.6%). The resultant EBITDA grew 15% YoY to ₹ 61 crore
- However, PAT grew a mere 7% YoY to ₹ 30 crore as a better operational performance was negatively impacted by higher depreciation and interest expense

GST, E-Way bill benefits flow in for freight segment

TCI's freight segment (47% of the revenues) grew 21% in 9MFY19, a sharp shift from earlier 10-15% growth seen in the segment, as 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. The management expects to see 15% growth in the segment for the medium term. The implementation of GST and E-Way bill, along with the increased permit of 20-25% axle load has intended to create a level playing field for the organised and unorganised logistics players. It is expected that over the medium to longer term, regulations would result in a shift in favour of organised players.

Diversified businesses to provide multiple growth opportunities

TCI has maintained its consistent growth trajectory through its service segments like large scale warehousing, multimodal solutions to high growth/value services industries like retail, auto and pharmaceutical. TCI operates in three segments: traditional freight segment, supply chain (SCS) and seaways. SCS has grown from 10% of FY07 revenues to ~39% in FY18, compared to freight segment stagnating from 53% to 51% currently and seaways at 4% to 11% currently. In seaways, TCI manages six ships 63380 DWT providing dedicated coastal shipping services across the eastern and the western coast. Although these businesses operate as individual entities, they create synergy offering customised, cost optimised logistics services to a wide range of domestic and international clients. Going forward, we believe the SCS and freight division will both grow at revenue CAGR (FY18-21) of 14%. Shipping is, however, expected to grow at 32%, due to addition of an extra ship, thus impacting the blended return ratios of the company in a positive way.

Valuations attractive at current levels

Q3 saw a strong performance in the seaways (52% revenue growth) and freight segment (20.3% growth). However, supply chain performance (10% growth) showed concerns surrounding the auto segment (especially in-bound logistics). Blended revenue growth continued to remain at 19% (on a high base of 25% revenue growth) indicating a head start for the business in an increasing digitised environment (GST, E-Way bill). The company continues to build capacity in its SCS and shipping division (₹ 175-200 crore earmarked for FY19). We believe utilisation of the capacity in the medium term will push TCI towards blended margins of ~10% with a RoCE of ~15%. 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 ₹ 350 per share with a **BUY** recommendation on the stock.

Rating matrix

Rating	:	Buy
Target	:	₹ 350
Target Period	:	12 months
Potential Upside	:	27%

What's changed?

Target	Changed from ₹ 360 to ₹ 350
EPS FY19E	Changed from ₹ 22 to ₹ 17.1
EPS FY20E	Changed from ₹ 27.3 to ₹ 23.3
EPS FY21E	Introduced at ₹ 31.7
Rating	Unchanged

Quarterly performance

	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	662.5	555.3	19.3	620.3	6.8
EBITDA	60.5	52.6	15.0	53.1	13.9
EBITDA (%)	9.1	9.5	-34 bps	8.6	57 bps
PAT	30.0	27.9	7.3	25.9	15.8

Key financials

₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	2,346	2,791	3,220	3,723
EBITDA	212.7	228.9	286.6	357.4
Net Profit	123.8	131.6	178.9	243.9
EPS	16.1	17.1	23.3	31.7

Valuation summary

	FY18	FY19E	FY20E	FY21E
P/E (x)	20.8	19.7	13.9	9.8
EV/EBITDA (x)	11.2	10.7	8.6	6.6
P / BV (x)	2.8	2.4	2.0	1.6
RONW (%)	16.3	14.9	17.0	19.0
ROCE (%)	13.4	12.2	14.2	16.3

Stock data

Particular	Amount
Market Cap. (₹ cr)	2105.9
Total Debt (FY18) (₹ Crore)	395.3
Cash and Investment (FY18) (₹ Crore)	14.1
EV (₹ Crore)	2487.0
52 week H/L	376/231
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

Price performance

	1M	3M	6M	1Y
Blue Dart Express	-4.0	-25.0	-21.0	-32.8
Gati Ltd	-2.8	-27.5	-32.7	-36.4
Vrl Logistics	2.5	-19.6	-32.9	-26.2
Tci Express Ltd	9.1	-12.0	15.7	10.0

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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	662.5	645.1	555.3	19.3	620.3	6.8	Robust YoY growth seen in the freight (20%) and seaways divisions (52%) whereas SCS grew mere 10% YoY
Operating Expenses	543.8	525.7	450.1	20.8	506.6	7.3	
Employee Expenses	34.0	34.2	29.5	15.0	34.7	-2.0	
Administrative & Oth Expenses	24.2	30.3	23.1	4.6	25.9	-6.6	
Total Expense	602.0	590.2	502.7	19.7	567.2	6.1	
EBITDA	60.5	54.8	52.6	15.0	53.1	13.9	
EBITDA Margin (%)	9.1	8.5	9.5	-34 bps	8.6	57 bps	YoY lower margins mainly due to lower gross margins (17.9% vs. 19% in Q3FY18)
Depreciation	20.5	19.8	17.6	16.0	19.1	7.4	
Interest	10.2	9.5	7.9	29.0	9.3	9.5	
Other Income	8.1	7.9	7.2	12.8	8.1	0.1	
Exceptional Gain/Loss	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	38.0	33.5	34.3	10.7	32.9	15.5	
Total Tax	8.0	7.0	6.4	25.7	7.0	14.7	
PAT	30.0	26.5	27.9	7.3	25.9	15.8	PAT growth impacted by higher depreciation and interest cost as well as higher tax rate (21% vs. 18.6% in Q3FY18)
Key Metrics	Q3FY19	Q3FY19E	Q3FY18	YoY	Q2FY19	QoQ	
Freight Division	311.2	297.4	258.6	20.3	293.2	6.1	Mostly volume led growth (mainly from SMEs)
Supply Chain Solutions	260.8	260.0	236.4	10.3	255.2	2.2	
Seaways	100.2	89.2	66.1	51.7	78.8	27.1	Ramping up of volumes in additional ship resulting in steep growth YoY

Source: Company, ICICI Direct Research

Change in estimates

			FY19E			FY20E			FY21E	
(₹ Crore)	FY17	FY18	Old	New	% Change	Old	New	% Change	Introduced	Comments
Revenue	1,942.5	1,942.5	2,871.0	2,791.4	-2.8	3,337.9	3,219.8	-3.5	3,722.9	
EBITDA	162.0	212.7	284.2	228.9	-19.5	333.8	286.6	-14.2	357.4	
EBITDA Margin (%)	8.3	11.0	9.9	8.2	-170 bps	10.0	8.9	-110 bps	9.6	Margins estimates revised due to higher contribution from freight division (low margin business)
PAT	82.0	123.2	168.7	131.0	-22.4	208.9	178.3	-14.6	243.2	
EPS (₹)	10.7	16.1	22.0	17.1	-22.3	27.3	23.3	-14.8	31.7	In sync with EBITDA

Source: Company, ICICI Direct Research

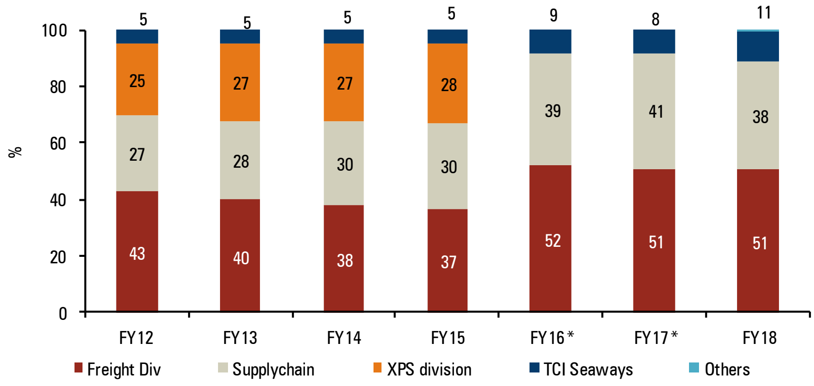
Company Analysis

Focus on increasing contribution from high margin SCS business

The de-merger of TCI's express division has led the freight business to become the biggest contributor of overall revenues. Revenues for the freight division have grown at 3% CAGR in FY10-16. However, due to a consolidated entity, the management was unable to focus on the business leading to lower growth rate. Post de-merger of its express division, revenues of the freight division posted growth of 13% YoY to ₹ 1199 crore compared to ₹ 1059 crore in FY17. However, for FY18, growth supply chain (SCS) business grew 24% YoY to ₹ 913 crore compared to ₹ 737 crore in FY17. The contribution to total earnings from SCS was at 39% compared to 38% in FY17. Shipping also upped its contribution to 11% of overall earnings (vs. 8% earlier) with revenue growth of 56% to ₹ 256 crore compared to ₹ 164 crore.

Contribution from low margin freight business has declined from 54% to 51% with EBIT contribution of 21%. Enhanced contribution from high margins business (SCS) would lead PAT growth to supersede revenue growth. Over FY18-21E, we expect topline growth of 17% CAGR to ₹ 3723 crore in FY21E compared to ₹ 2346 crore in FY18.

Exhibit 1: Freight biggest contributor to revenues…



Source: Company, ICICI Direct Research

Indian logistics sector on cusp of change; multi-modal theme remains key

The logistics sector is expected to witness a turnaround led by rollout of GST, revival in domestic macro, exponential growth in e-commerce, higher infrastructure spending in roads projects, fast tracking of Dedicated Freight Corridor (DFC) and initiatives like Make in India. Further, the Centre has identified 35 clusters, which account for half of total freight movement for building logistics parks to improve the existing transportation and warehousing scenario in the country. The proposed multimodal logistics parks would reduce transportation cost by 10% for industries in the 35 clusters, thereby enabling freight movement on higher sized trucks and rail. Increased freight movement on higher sized trucks and rail will result in reduction in freight vehicles.

Multimodal transport refers to the seamless transport of cargo from one point to another via more than one mode of transport. Multimodal logistics can be viewed as "the chain that interconnects different links or modes of transport – air, sea, and land into one complete process that ensures an efficient and cost-effective door-to-door movement of cargo under the responsibility of a single transport operator, known as a multimodal transport operator (MTO). The government's initiative, which includes Dedicated Freight Corridor (DFC), Sagarmala and Bharatmala would further benefit.

GST to bring in higher efficiencies, improve profitability…

The Indian logistics industry is plagued by multiple levels of state and central taxes. The product is prone to double taxation as taxes already paid on inputs are not adjusted on calculation of taxes on the final product. Further complications are in the form of interstate transactions that are taxed separately, for which no input tax credit is available. GST would simplify these complications and benefit consumers, produces and the government. More than 140 markets have implemented GST in some form or the other. With numerous benefits at both firm/consumer and economy level, GST is expected to add over 1% to the GDP. Implementation of GST will lead to a simplified tax structure with a majority of taxes pooled under one uniform rate, thereby bringing more efficient tax administration and reduction in tax leakages.

Due to multiple taxation, firms had resorted to setting up multiple warehouses in different states. This was adding to firm's costs, as they were unable to take advantage of economies of scale from using larger but fewer warehouses. Implementation of GST will overhaul and compress the entire transportation setup. It is estimated that under the GST system, tax will be levied on stock transfers and full credit will be given to inter-state transactions. The outcome of the same will enable the manufacturer to plan the warehousing and decisions on the basis of operational and logistics efficiency. The current supply chain arrangements would be realigned making certain proximity to manufacturing locale or consumption markets, resulting in diverse hub and spoke models. Post GST, demand for warehousing is expected to grow at an annual rate of 9% from current 918 mn sq ft to 1440 mn sq ft.

TCI is one of the largest integrated players with an approximate market share of 15% in the organised logistics industry. With a fleet of nearly 12000 trucks, trailers, reefer vehicles and a branch network of over 1,100 company-owned offices, TCI services ~18000 pin codes in India. Furthermore, the company provides warehousing and e-fulfilment services with an approximate warehousing capacity of 12 mn sq ft. In addition to the same, TCI also manages coastal shipping with an owned fleet of six ships. Given the variety of services and multi-modal capabilities, TCI manages to maintain cost efficiencies and competitive positioning compared to other players in the logistics market.

Outlook and Valuation

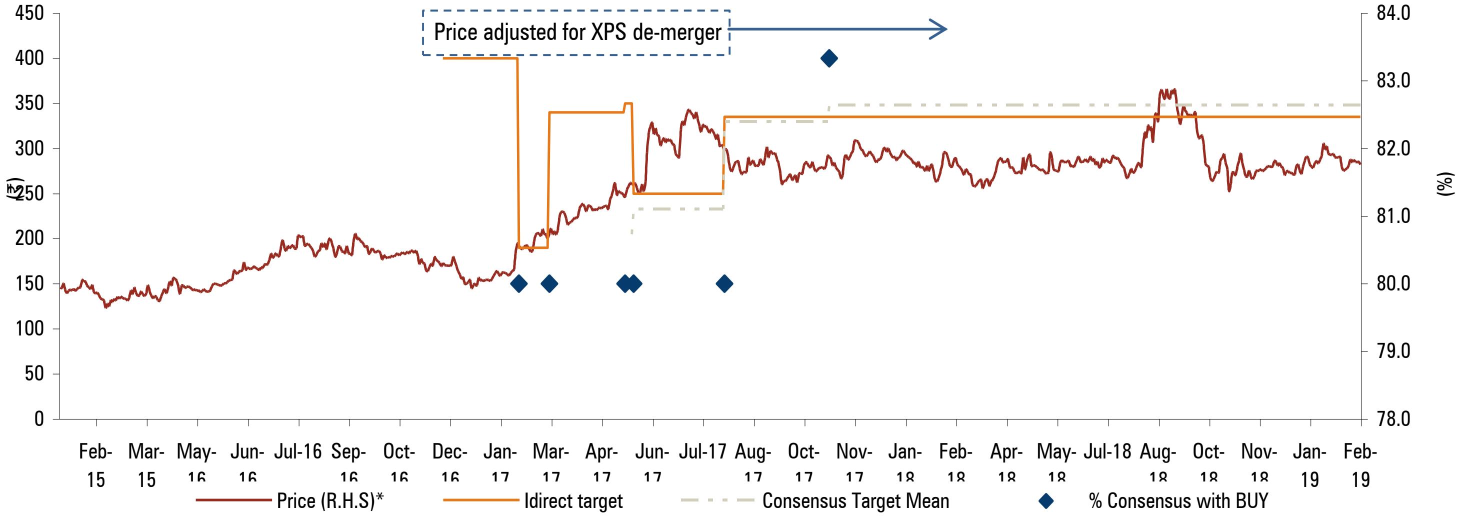
Q3 saw a strong performance in the seaways (52% revenue growth) and freight segment (20.3% growth). However, the supply chain performance (10% growth) showed concerns around the auto segment (especially in-bound logistics). Blended revenue growth continued to remain at 19% (on a high base of 25% revenue growth) indicating head start for the business in an increasing digitised environment (GST, E-Way bill). The company continues to build capacity in its SCS and shipping division (₹ 175-200 crore earmarked for FY19). We believe utilisation of the capacity in the medium term, will push TCI towards blended margins of ~10% with a RoCE of ~15%. 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 ₹ 350 per share with a **BUY** recommendation on the stock.

Exhibit 2: Valuation

Segment	Standalone EBITDA (FY21E) ₹ crore	EV (x)	EV (₹ crore)
Freight	64.5	5	348
Supply Chain	148.4	8	1187
Seaways	188.3	6	1139
Enterprise Value			2675
Net Debt (FY21E)			90
Market Value (Ex-TCI-Concor, Transystem)			**2585**
Subsidiary	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:TCI-Concor (51% stake)	131	0.4	52
Joint Venture	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:Transystem (49% stake)t	350	0.4	140
Holding company discount (50%)			96
Target Market Value			**2681**
No of Shares			7.7
Per Share Value			**350**

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus estimate



*Source: Bloomberg, Company, ICICI Direct Research, * price adjusted for de-merger of Express division*

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 records 24% growth in net profit YoY
Jan-14	Radhakrishna Damani picks up 3.6% stake in TCI
May-14	Strong results (48% YoY growth in net profit) for March 2014 propel further investor interest in the stock
Oct-15	Announces de-merger of express business
Jan-16	Reports Q3FY16 results. Earnings remain muted. EBITDA margins at 8%. Management guidance of 0-5% growth in FY16
May-16	Reports Q4FY16 results. De-merger of XPS expected in August. EBITDA margins stood at 8.8%. Guidance for double digit revenue & PAT growth in FY17

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	%O/S	Position (m)	Change (m)
1	Bhoruka Finance Corporation of India, Ltd.	30-Sep-18	0.21	15.9	0.0
2	Bhoruka International Pvt. Ltd.	30-Sep-18	0.14	10.6	0.0
3	TCI Group	30-Sep-18	0.08	6.4	0.0
4	Agarwal (Dharmpal P.)	30-Sep-18	0.08	5.8	0.0
5	IDFC Asset Management Company Private Limited	31-Dec-18	0.03	2.5	-0.1
6	Agarwal (Dharmpal) HUF	30-Sep-18	0.03	2.0	0.0
7	Arcee Holding, Ltd.	30-Sep-18	0.03	2.0	0.0
8	Agarwal (Vineet)	30-Sep-18	0.03	2.0	0.0
9	Agarwal (Priyanka)	30-Sep-18	0.03	1.9	0.0
10	Agarwal (Urmila)	30-Sep-18	0.02	1.9	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-18	May-18	Sep-18	Dec-18
Promoter	66.1	67.0	66.9	66.9
FII	2.3	2.4	1.9	1.9
DII	7.5	7.8	7.5	8.1
Others	24.1	22.8	23.7	23.1

Recent Activity

Buy			Sell		
Investor Name	Value	Shares	Investor Name	Value	Shares
XPS Cargo Services, Ltd.	1.07	0.27	Agarwal (Chander)	-1.07	-0.27
Tiwari (Ashish Kumar)	0.11	0.03	IDFC Asset Management Company Private Limited	-0.38	-0.09
LIC Mutual Fund Asset Management Company Ltd.	0.05	0.01	Mellon Investments Corporation	-0.34	-0.09
Sundaram Asset Management Company Limited	0.01	0.00	Dimensional Fund Advisors, L.P.	-0.01	0.00
Kaushik (P K)	0.01	0.00	Sethi (Jasjit Singh)	-0.01	0.00

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement (₹ Crore)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	2,346.1	2,791.4	3,219.8	3,722.9
Growth (%)	20.8	19.0	15.3	15.6
Operating expense	1,906.8	2,254.1	2,577.5	2,961.6
Manpower Cost	124.5	147.9	170.7	189.9
Admin & other expense	102.1	160.5	185.1	214.1
Total Expense	2,133.4	2,562.5	2,933.3	3,365.5
EBITDA	212.7	228.9	286.6	357.4
Growth (%)	31.3	7.6	25.2	24.7
Depreciation	68.7	84.7	97.5	110.2
EBIT	144.1	144.2	189.1	247.2
Interest	32.2	43.4	49.0	54.6
Other Income	18.2	36.4	54.5	81.8
PBT	130.1	137.1	194.6	274.4
Growth (%)	50.8	5.4	41.9	41.0
Tax	28.7	30.2	42.8	60.4
Reported PAT	101.4	107.0	151.8	214.0
Growth (%)	51.1	5.5	41.9	41.0
Share of Profit from JV	22.4	24.7	27.1	29.8
Minority Interest	0.6	0.6	0.6	0.6
Adjusted PAT	123.2	131.0	178.3	243.2
EPS	16.1	17.1	23.3	31.7

Source: Company, ICICI Direct Research;

Cash flow statement (₹ Crore)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	123.2	131.0	178.3	243.2
Add: Depreciation	68.7	84.7	97.5	110.2
Add: Interest Expense	32.2	43.4	49.0	54.6
Cash Profit	224.0	259.1	324.8	408.0
Increase/(Decrease) in CL	-91.5	2.1	-111.6	-85.7
(Increase)/Decrease in CA	32.2	34.8	16.9	19.4
Others	1.7	0.0	0.0	0.0
CF from Operating Activities	166.4	296.0	230.1	341.7
Purchase of Fixed Assets	-152.3	-202.8	-153.0	-153.1
(Inc)/Dec in Investments	-17.9	-104.6	-21.1	-23.2
Others	24.8	0.9	0.9	0.9
CF from Investing Activities	-145.4	-306.5	-173.1	-175.3
Inc/(Dec) in Loan Funds	15.8	147.0	70.0	70.0
Inc/(Dec) in Share Capital	0.0	0.0	0.0	0.0
Less: Interest Expense	-32.2	-43.4	-49.0	-54.6
Others	-9.2	-9.2	-9.2	-9.2
CF from financing activities	-25.6	94.4	11.8	6.2
Change in cash Eq.	-4.6	84.0	68.8	172.6
Op. Cash and cash Eq.	18.7	14.1	98.1	166.9
Cl. Cash and cash Eq.	14.1	98.1	166.9	339.5

Source: Company, ICICI Direct Research

Balance sheet (₹ Crore)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Source of Funds				
Equity Capital	15.3	15.3	15.3	15.3
Reserves & Surplus	746.5	868.3	1,037.4	1,271.4
Shareholder's Fund	761.8	883.6	1,052.7	1,286.7
Loan Funds	395.3	542.3	612.3	682.3
Deferred Tax Liability	44.5	45.4	46.3	47.2
Minority Interest	4.7	4.7	4.7	4.7
Govt Grant	1.8	1.8	1.8	1.8
Long Term Provisions	0.0	0.0	0.0	0.0
Source of Funds	1208.0	1477.7	1717.7	2022.7
Application of Funds				
Gross Block	796.9	996.9	1,146.9	1,296.9
Less: Acc. Depreciation	171.1	255.8	353.3	463.5
Net Block	625.8	741.1	793.6	833.3
Capital WIP	56.3	59.1	62.1	65.2
Non-Current Investments	104.4	208.7	229.6	252.6
Long Term Loans & Advances	10.0	10.2	10.4	10.6
Other Non-Current Assets	39.4	39.4	39.4	39.4
Inventories	3.3	3.1	3.5	4.1
Debtor	424.9	420.6	529.3	612.0
Cash	14.1	98.1	166.9	339.5
Loan & Advance, Other CA	119.6	122.0	124.4	126.9
Current Liabilities	189.7	224.6	241.5	260.9
Trade Payables	59.7	91.8	105.9	122.4
Other Current Liabilities	124.5	127.0	129.5	132.1
Short Term Provisions	5.5	5.8	6.1	6.4
Application of Funds	1,208.0	1,477.7	1,717.7	2,022.7

Source: Company, ICICI Direct Research

Key ratios

(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
Book Value	99.4	115.3	137.4	168.0
Cash per share	55.4	54.9	69.1	79.9
EPS	16.1	17.1	23.3	31.7
Cash EPS	22.2	25.0	32.5	42.3
DPS	1.1	1.0	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	9.1	8.2	8.9	9.6
PAT Margin (%)	4.3	3.8	4.7	5.7
Fixed Asset Turnover (x)	3.7	3.8	4.1	4.5
Inventory Turnover (Days)	6.1	5.2	4.5	3.9
Debtor (Days)	0.5	0.4	0.4	0.4
Current Liabilities (Days)	9.3	12.0	12.0	12.0
Return Ratios (%)				
RoE	16.3	14.9	17.0	19.0
RoCE	13.4	12.2	14.2	16.3
RoIC	13.2	11.3	13.1	15.8
Valuation Ratios (x)				
P/E	17.1	16.1	11.8	8.7
Price to Book Value	2.8	2.4	2.0	1.6
EV/EBITDA	11.2	10.7	8.6	6.6
EV/Sales	1.0	0.9	0.8	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.6	0.6	0.5
Interest Coverage (x)	4.5	3.3	3.9	4.5
Debt to EBITDA (x)	1.9	2.4	2.1	1.9
Current Ratio	2.0	1.3	1.2	1.0
Quick ratio	1.3	0.9	0.8	0.7

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Logistics)

	CMP			M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			
Sector / Company	(₹)	TP(₹)	Rating	(₹ Cr)	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Container Corporation	493	625	BUY	30,036	14.1	17.6	20.1	24.7	35.0	28.0	24.5	19.9	6.4	5.1	4.0	3.3	9.8	11.4	12.8	13.1
Transport Corp. of India	275	350	BUY	2,106	10.7	16.1	22.0	27.3	25.2	16.8	12.3	9.9	14.4	11.0	8.4	7.0	10.7	13.4	15.1	15.8
BlueDart	3,069	3,650	BUY	7,282	58.9	60.9	34.2	64.4	47.3	45.7	81.5	43.2	19.5	18.6	24.4	16.9	32.2	29.3	17.9	28.2
Gati Ltd.	69	75	Hold	749	1.2	3.2	1.2	2.6	59.1	22.6	60.9	27.8	9.2	13.7	11.6	8.2	7.6	6.0	7.2	10.3
Gujarat Pipavav	83	100	BUY	3,991	5.8	4.6	4.9	5.5	17.3	22.1	20.7	18.4	10.8	11.9	11.2	10.5	14.0	12.1	12.3	13.0
TCI Express	617	780	BUY	2,362	9.8	15.2	19.5	24.4	65.9	42.3	33.1	26.4	40.3	27.6	20.8	16.6	31.9	38.3	38.3	36.4

Source: Company, ICICI Direct Research

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