

Auto slowdown hits SCS business...

Transport Corporation of India (TCI) reported 5% revenue growth. The freight (~46% of standalone revenues) and shipping division (16%) grew 7%, 10%, respectively, whereas supply chain division (39%) remained flat. EBITDA margins improved 36 bps to 9.2%, mainly due to lower operating cost to sales ratio (80.7% vs. 81.1% in Q1FY19). Subsequently, resultant EBITDA, PAT grew 10%, 6%, respectively. The company has adopted Ind-AS 116 "leases" standard, which had an insignificant impact on profitability. The management expects demand recovery in forthcoming quarters, helped by factors like stable crude oil prices, moderate inflation with expected policy initiatives by the Central government. Industrial auto segment (CV, earth moving equipment) is expected to provide a push to the SCS segment (triggers include BS-VI pre-buy in the CV segment).

Gradual revival in SCS segment to fuel growth ahead

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 six ships with a capacity of 63622 DWT and 12 million square feet (msf) of warehouse space. FY20 is expected to deliver ~10-11% growth at a blended level compared to 21% and 17% in FY18 and FY19, respectively, led by subdued growth in SCS segment (extended slowdown in auto sector :~80% of SCS pie). However, with the fall 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 13% 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

The company continues to build capacity in its SCS and shipping division (₹ 200-250 crore earmarked for FY20). We believe capacity utilisation in the medium term, will push TCI towards blended margins of ~10% with a RoCE of ~17%. 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** rating 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	376/231
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

Key Highlights

- Industrial auto segment (CV, earth moving equipment) expected to provide push to SCS segment (triggers include BS-VI pre-buy in CV segment)
- The company continues to build capacity in its SCS, shipping division
- We expect revenue, EBITDA, PAT CAGR of 13%, 19%, 23%, respectively, in FY19-21E
- Maintain BUY

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

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	3,051.4	3,523.6	16.1
EBITDA (₹ crore)	129.4	162.0	216.5	249.5	283.8	352.4	21.4
Adjusted Net Profit (₹ crore)	56.5	82.0	123.2	144.4	164.1	218.1	27.7
EPS (₹)	7.4	10.7	16.1	18.8	21.4	28.5	
P/E (x)	23.7	25.1	16.8	14.3	12.6	9.5	
Price / Book (x)	3.6	3.2	2.7	2.3	2.0	1.7	
EV/EBITDA (x)	17.7	14.5	10.9	9.5	8.2	6.4	
RoCE (%)	9.2	10.7	13.4	14.2	14.2	16.7	
RoNW (%)	15.2	12.8	16.3	16.3	15.8	17.4	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	612.1	665.5	581.5	5.3	691.8	-11.5	YoY growth of mere 5%, mainly due to muted growth in SCS (1%) and seaways divisions (10%), against higher estimates
Operating Expenses	494.2	535.7	471.5	4.8	547.5	-9.7	
Employee Expenses	37.2	36.6	33.3	11.7	33.8	10.1	
Administrative & Oth Expenses	24.5	29.9	25.4	-3.8	33.4	-26.7	
Total Expense	555.9	602.3	530.2	4.8	614.8	-9.6	
EBITDA	56.2	63.2	51.3	9.5	77.1	-27.1	
EBITDA Margin (%)	9.2	9.5	8.8	36 bps	11.1	-196 bps	Margins lower than estimates mainly due to higher operating expenses to sales ratio (80.7% vs. estimated 80.5%) and higher employee expenses (6.1% vs. estimated 5.5%)
Depreciation	18.6	19.8	16.8	10.8	18.9	-1.4	
Interest	8.2	9.7	7.0	17.2	9.1	-9.2	
Other Income	7.5	7.3	8.2	-8.6	4.6	64.8	
Exceptional Gain/Loss	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	36.9	41.0	35.7	3.2	53.7	-31.3	
Total Tax	7.2	8.6	7.5	-5.0	10.1	-29.1	
PAT	29.7	32.4	28.2	5.5	43.6	-31.8	In sync with EBITDA
Key Metrics	Q1FY20	Q1FY20E	Q1FY19	YoY	Q4FY19	QoQ	
Freight Division	299.0	306.1	278.3	7.4	327.0	-8.6	Mostly volume led growth (mainly from SMEs)
Supply Chain Solutions	239.1	261.3	237.5	0.7	265.4	-9.9	
Seaways	78.9	100.1	71.5	10.3	108.8	-27.5	

Source: Company, ICICI Direct Research

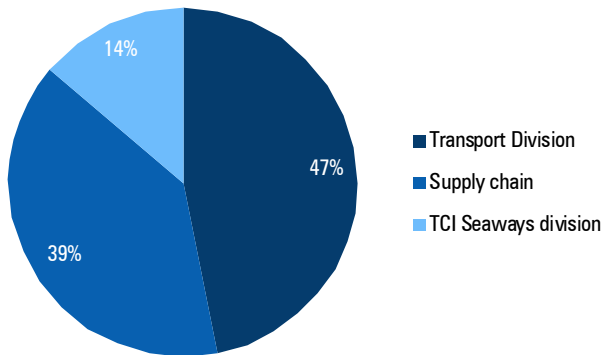
Exhibit 2: Change in estimates

₹ Crore)	FY20E					FY21E			Comments
	FY18	FY19	Old	New	% Change	Old	New	% Change	
Revenue	2,349.9	2,753.7	3,166.5	3,051.4	-3.6	3,660.5	3,523.6	-3.7	Revenue estimates lowered mainly due to lower-than-expected growth from shipping and SCM verticals
EBITDA	216.5	249.5	300.8	283.8	-5.7	366.1	352.4	-3.7	
EBITDA Margin (%)	9.2	9.1	9.5	9.3	-20 bps	10.0	10.0	0 bps	Margins impacted by unfavourable product mix
PAT	123.2	144.4	178.0	164.1	-7.8	229.5	218.1	-5.0	
EPS (₹)	16.1	18.8	23.2	21.4	-7.8	29.9	28.5	-5.0	

Source: Company, ICICI Direct Research

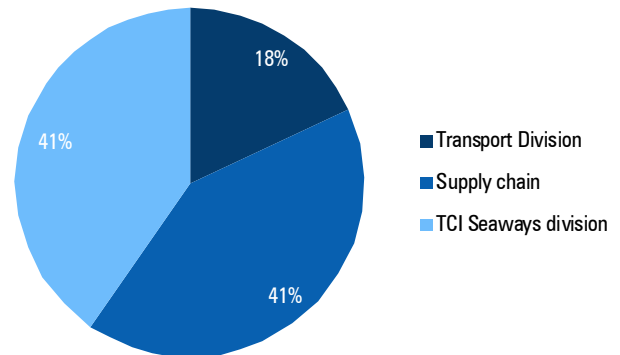
Key Metrics

Exhibit 3: Segmental revenues (standalone)



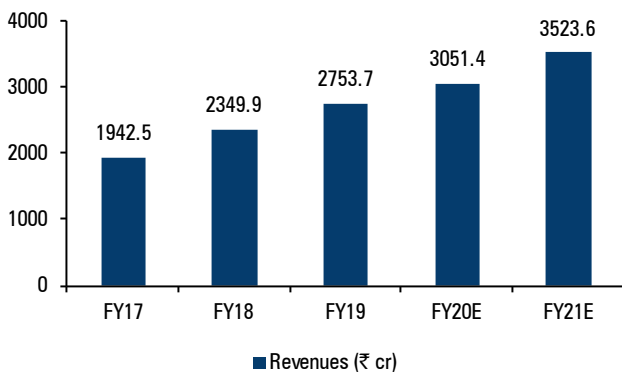
Source: ICICI Direct Research, Company

Exhibit 4: Segmental EBITDA (standalone)



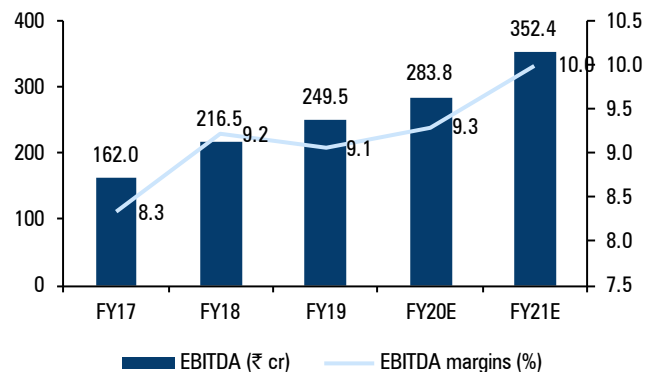
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 13% (FY19-21) CAGR



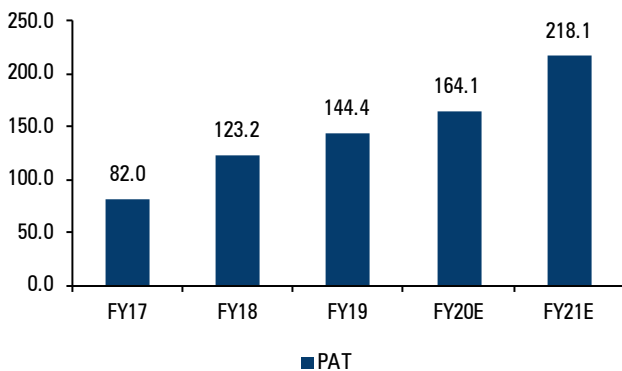
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA expected to grow at 19% CAGR (FY19-21)



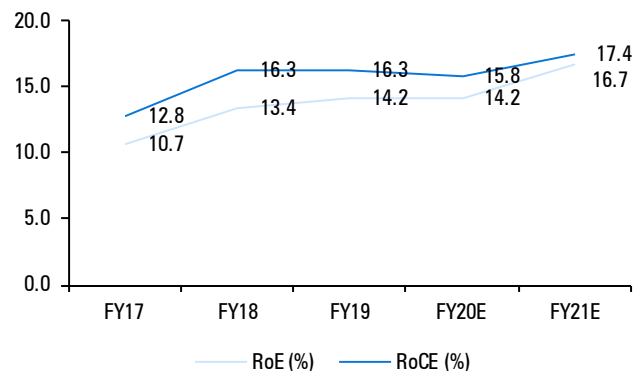
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 23% CAGR (FY19-21)



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



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	31.0	14.5	12.8	10.7
FY18	2349.9	21.0	16.1	50.2	20.5	10.9	16.3	13.4
FY19	2753.7	17.2	18.8	17.2	17.2	9.5	16.3	14.2
FY20E	3051.4	10.8	21.4	13.6	15.2	8.2	15.8	14.2
FY21E	3523.6	15.5	28.5	32.9	11.1	6.4	17.4	16.7

Source: Company, ICICI Direct Research

Valuation and Outlook

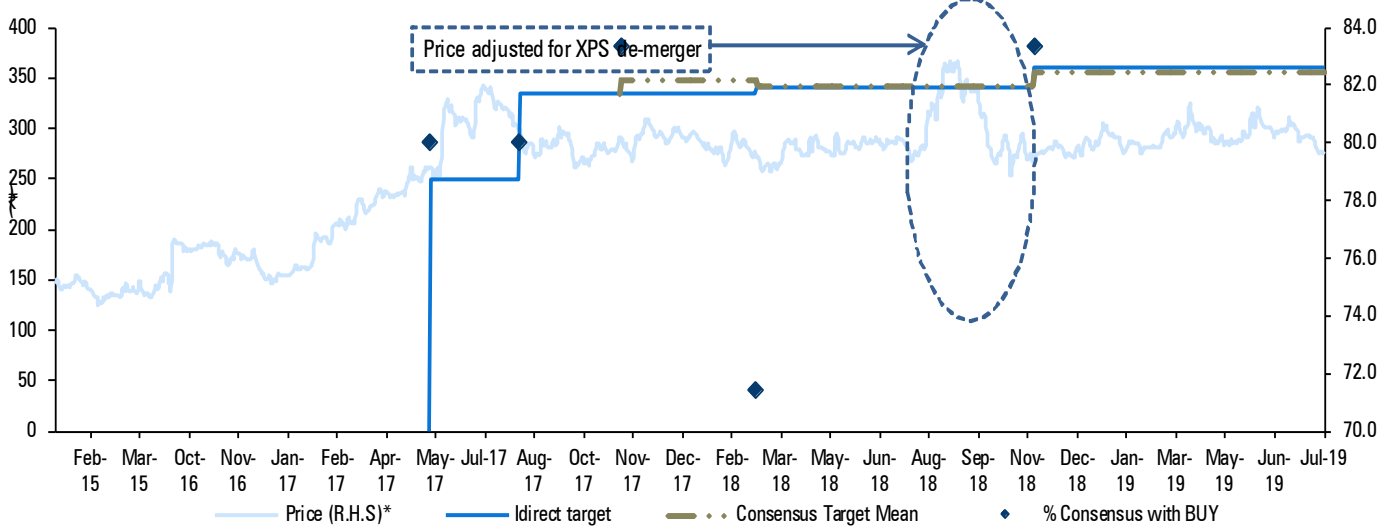
The company continues to build capacity in its SCS and shipping division (₹ 200-250 crore earmarked for FY20). We believe utilisation of the capacity in the medium term will push TCI towards blended margins of ~10% with RoCE of ~17%. With multi-modal capabilities, we believe TCI has developed a strong moat around its business thereby delivering sustainable growth rates. On an SOTP basis, we value the company at ₹ 330 per share with a **BUY** recommendation on the stock.

Exhibit 10: SOTP valuation

Segment	Standalone EBITDA (FY21E) ₹ crore	EV (x)	EV (₹ crore)
Freight	59.6	5	298
Supply Chain	141.8	8	1156
Seaways	177.3	6	1117
Enterprise Value			2570
Net Debt (FY21E)			134
Market Value (Ex-TCI-Concor, Transystem)			2436
Subsidiary	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:TCI-Concor (51% stake)	128	0.4	51
Joint Venture	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:Transystem (49% stake)	344	0.4	137
Holding company discount (50%)			94
Target Market Value			2530
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 (r)
1	TCI Group	31-Mar-19	0.08	6.4	0
2	Agarwal (Dharpal P.)	31-Mar-19	0.08	5.8	0
3	IDFC Asset Management Company Privat	30-Jun-19	0.04	3.1	0
4	Canara Robeco Asset Management Comj	31-Mar-19	0.04	2.8	0
5	Agarwal (Dharpal) HUF	31-Mar-19	0.03	2.0	0
6	Arcee Holding, Ltd.	31-Mar-19	0.03	2.0	0
7	Agarwal (Vineet)	31-Mar-19	0.03	2.0	0
8	Agarwal (Priyanka)	31-Mar-19	0.03	1.9	0
9	Agarwal (Urmila)	31-Mar-19	0.02	1.9	0
10	Agarwal (Chander)	31-Mar-19	0.02	1.8	0

Source: ICICI Direct Research, Reuters, Company

Exhibit 13: Shareholding Pattern

(in %)	Sep-18	Nov-18	Mar-19	Jun-19
Promoter	66.9	66.9	66.9	66.9
FII	1.9	1.9	1.9	1.9
DII	8.1	8.4	8.4	9.2
Others	23.1	22.8	22.8	22.0

Source: ICICI Direct Research, Reuters, Company

Exhibit 14: Recent Activity

Buy			Sell		
Investor Name	Value	Shares	Investor Name	Value	Shares
AGARWAL (Madhulika)	4.91	1.05	Canara Robeco Asset Management Company Ltd.	-0.07	-0.01
IDFC Asset Management Company Private Limited	0.32	0.07	Singh (Ram Ujagar)	-0.02	0.00
			Bessemer Trust Company, N.A. (US)	-0.01	0.00
			Dimensional Fund Advisors, L.P.	-0.01	0.00
			Shekhwat (Girdhari Singh)	0.00	0.00

Source: ICICI Direct Research, Reuters

Exhibit 15: Profit & Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	2,349.9	2,753.7	3,051.4	3,523.6
Growth (%)	21.0	17.2	10.8	15.5
Operating expense	1,906.8	2,251.5	2,496.0	2,868.2
Manpower Cost	124.5	140.2	149.5	169.1
Admin & other expense	102.1	112.4	122.1	133.9
Total Expense	2,133.4	2,504.1	2,767.6	3,171.2
EBITDA	216.5	249.5	283.8	352.4
Growth (%)	33.6	15.3	13.7	24.2
Depreciation	68.7	77.4	95.7	108.4
EBIT	147.9	172.1	188.1	244.0
Interest	32.2	37.4	31.8	25.0
Other Income	14.4	19.5	19.8	22.9
PBT	130.1	154.2	176.2	241.9
Growth (%)	50.8	18.6	14.2	37.3
Tax	28.7	33.3	38.8	53.2
Reported PAT	101.4	120.9	137.4	188.6
Growth (%)	51.1	19.2	13.7	37.3
Share of Profit from JV	22.4	25.1	27.6	30.4
Minority Interest	0.6	0.9	0.9	0.9
Adjusted PAT	123.2	145.1	164.1	218.1
EPS	16.1	18.8	21.4	28.5

Source: ICICI Direct Research

Exhibit 16: Cash flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	123.2	144.4	164.1	218.1
Add: Depreciation	68.7	77.4	95.7	108.4
Add: Interest Expense	32.2	37.4	31.8	25.0
Cash Profit	224.0	259.2	291.6	351.5
Increase/(Decrease) in CL	-91.5	-130.9	-57.1	-92.1
(Increase)/Decrease in CA	32.2	73.9	11.9	15.9
Others	-7.9	-19.1	0.0	0.0
CF from Operating Activities	156.8	183.0	246.4	275.3
Purchase of Fixed Assets	-151.1	-125.9	-150.2	-150.2
(Inc)/Dec in Investments	-17.9	-5.1	-11.7	-12.9
Others	31.7	-20.4	0.8	0.8
CF from Investing Activities	-137.2	-151.4	-161.2	-162.3
Inc/(Dec) in Loan Funds	15.8	18.9	-40.0	-80.0
Inc/(Dec) in Share Capital	0.0	0.0	0.0	0.0
Less: Interest Expense	-32.2	-37.4	-31.8	-25.0
Others	-7.7	-11.8	-9.2	-9.2
CF from financing activities	-24.1	-30.3	-81.0	-114.2
Change in cash Eq.	-4.6	1.4	4.2	-1.3
Op. Cash and cash Eq.	18.7	14.2	15.5	19.8
Cl. Cash and cash Eq.	14.2	15.5	19.8	18.5

Source: ICICI Direct Research

Exhibit 17: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	15.3	15.3	15.3	15.3
Reserves & Surplus	746.5	876.6	1,031.5	1,240.5
Shareholder's Fund	761.8	892.0	1,046.9	1,255.8
Loan Funds	395.3	414.2	374.2	294.2
Deferred Tax Liability	44.5	39.0	39.8	40.6
Minority Interest	4.7	5.2	5.2	5.2
Govt Grant	1.8	2.0	2.0	2.0
Long Term Provisions	0.0	0.0	0.0	0.0
Source of Funds	1208.0	1352.3	1468.0	1597.7
Application of Funds				
Gross Block	796.9	975.3	1,125.3	1,275.3
Less: Acc. Depreciation	171.1	248.5	344.2	452.6
Net Block	625.8	726.8	781.1	822.7
Capital WIP	56.3	4.0	4.2	4.4
Non-Current Investments	104.4	116.8	128.5	141.4
Long Term Loans &	10.0	2.7	2.7	2.8
Other Non-Current Assets	39.4	71.5	71.5	71.5
Inventories	3.3	5.3	5.9	6.8
Debtor	424.9	515.1	568.5	656.4
Cash	14.1	15.5	19.8	18.5
Loan & Advance, Other CA	119.6	158.3	161.4	164.7
Current Liabilities	189.7	263.6	275.5	291.4
Trade Payables	59.7	67.4	75.2	86.9
Other Current Liabilities	124.5	189.7	193.5	197.3
Short Term Provisions	5.5	6.5	6.8	7.2
Application of Funds	1,208.0	1,352.3	1,468.0	1,597.7

Source: ICICI Direct Research

Exhibit 18: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	99.4	116.4	136.6	163.8
Cash per share	55.4	67.2	74.2	85.7
EPS	16.1	18.9	21.4	28.5
Cash EPS	22.2	25.9	30.4	38.8
DPS	1.1	1.6	1.8	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	9.2	9.1	9.3	10.0
PAT Margin (%)	4.3	4.4	4.5	5.4
Fixed Asset Turnover (x)	3.8	3.8	3.9	4.3
Inventory Turnover (Days)	0.5	0.7	0.7	0.7
Debtor (Days)	66.0	68.3	68.0	68.0
Current Liabilities (Days)	9.3	8.9	9.0	9.0
Return Ratios (%)				
RoE	16.3	16.3	15.8	17.4
RoCE	13.4	14.2	14.2	16.7
RoIC	13.6	13.7	13.7	16.3
Valuation Ratios (x)				
P/E	16.9	14.4	12.7	9.6
Price to Book Value	2.7	2.3	2.0	1.7
EV/EBITDA	10.9	9.5	8.2	6.4
EV/Sales	1.0	0.9	0.8	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.5	0.4	0.2
Interest Coverage (x)	4.6	4.6	5.9	9.8
Debt to EBITDA (x)	1.8	1.7	1.3	0.8
Current Ratio	2.0	2.3	2.1	1.9
Quick ratio	1.3	1.3	1.2	1.1

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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