

Transport Corporation has benefited from an upturn in industrial sector and is also expanding its footprint in the realty segment

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TRANSPORT Corporation of India (TCI) has benefited from strong demand conditions over the past few quarters from its key user industries, such as industrial and capital goods sector. The company's board had also given its approval for the demerger of its real estate and warehousing division into a separate company in mid-March 2010. TCI has properties in metropolitan and tier-II cities including New Delhi, Chennai and Bangalore.

Given the current boom in the real estate sector and the government's focus on expanding warehousing and cold storage facilities across the country, TCI's move appears timely. We had recommended this stock in our issue dated January 18, 2010, and since then it has risen nearly 36.3% compared to 2% rise in the broader Sensex. However, TCI still trades at a lower price to earning multiple (P/E) than Container Corporation of India, which is the largest player in the domestic logistics sector.

LOGISTICS INFRASTRUCTURE:

TCI is a multi-modal logistics player with a presence in different segments of the industry, such as trucking, warehousing and supplychain solutions, The company initially offered only low-margin movement of goods across the country via trucks. But over the past few years, the company has been attempting to move up the value chain in the logistics business, with supply chain solutions and express distribution systems, which involves pick up of and delivery of package/cargo on a door-to-door basis across the country.

Its logistics network includes 8.5 million square feet of warehousing space, which includes a combination of owned and leased space, at the end of March 2010, a rise of 30.8% from three years earlier. In addition, its fleet included 7,000 trucks and trailers under operation (both owned and managed), coupled with six cargo ships. The company's lower margin freight division accounted for nearly 50% of its standalone total net sales in the year ended March 2010 as compared to 56.5% two years earlier. The company received its board's nod for the demerger of its real estate and warehousing division into a separate company. However, details of its plans are still sketchy. Once, all the regulatory approvals are received, one share of the transferee company, TCI Developers, will be given for 20 shares held in the existing Transport Corporation.

Transport Corp had invested 263 crore between March 2007 and March 2010, while its total debt increased by 24.3% to 271.6 crore during this period. Also, the company's leverage ratio at 0.87 at the end of March 2010 was lower than three years earlier.

FINANCIALS:

The upturn in the economy helped the company's total operational income rise 26.5% to 393.7 crore during the June 2010 quarter and its operating profit margin also improved 50 basis points to 7.3% in the quarter. Also, during the period, March 2007 and March 2010, the company's total standalone operational income grew at a CAGR of 10.2% to 1,451.5 crore, while its net profit during this period grew at a CAGR of 14%. And it compares favourably with Container Corporation, which posted a CAGR of just 6.6% in sales and 3.8% in net profit during this period.

VALUATION:

Transport Corp at 137 per share, gets a P/E of 21 times on a trailing fourquarter basis, and it also trades at 3.2 times its March 2010 book value. It has traded in a range of 2.5 to 3.2 times its trailing book value during FY06 and FY09. The largest domestic player Container Corp trades at a P/E of 21.9 times, while another leading player Allcargo Global trades at 16 times P/E on a consolidated basis. Investors can consider Transport Corp to take advantage of the long-term opportunities in the logistics and allied sectors.
