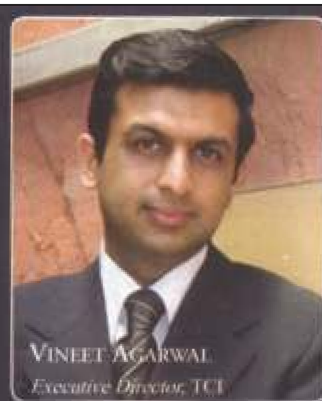
**Analysis**

Transport Corporation of India

# Benefit From Infra Growth

India's logistics solutions giant Transport Corporation of India has recently announced demerging of its Real Estate & Warehousing division to form TCI Developer's. **Shashikant** takes a critical look at TCI's performance and its future prospects.



VINEET AGARWAL
*Executive Director, TCI*

**"Real Estate & Warehousing division has the potential to generate significant revenues in the coming years."**

Transport Corporation of India (TCI) which started with one man, one truck and one office more than five decade back has now become one of the largest integrated logistics solutions providers in India.

TCI provides entire logistic solutions to its customer under one roof be it freight service, express delivery service, specialized cold chain service or logistics needs outside India. Recently company has announced about demerging of its Real estate and warehousing division to form TCI Developer's (TDL). When asked the reason behind such decision, Vineet Agarwal, Executive Director, TCI said "Real Estate & Warehousing division has the potential to generate significant revenues in the coming years and expect that in next five years TDL will generate revenues of around Rs. 200-300 crores". This has clearly led to spur in company's scrip which is up by 25 per cent since announcement and 38 per cent year till date while Sensex in the same time has remained almost flat. We will now explore in detail about what company does and why is it still buy?

### Business Division:

TCI started its business with TCI Freight and covers all the domestic surface transport including road and rail. But as company started exploring other areas of providing logistics services, share of this segment in total revenue started decreasing. It has come down from 72 per cent in FY05 to 50 per cent of total revenue now. This is a low margin segment and company expects its share in overall revenue to fall further going forward. Door to door service including courier, packages and air cargo of all dimensions is provided by TCI XPS. This is high margin segment and despite contributing only 27 per cent in sales it adds 30 per cent at operating profit level. To move ahead in the value chain of freight business company established TCI SCS which not only provides bulk movement of goods but also take warehousing services. It caters mainly to those companies, who deal in perishable cargo like pharmaceutical, foods and chemicals. This is one of the high growth areas of company and management expects it to grow by 40 per cent this year. (See the table for margins & growth rate of each division) At the end of December 2009, company had warehousing capacity of 8 mn sq ft.

**Division-wise Share In Total Revenue, Growth Rate And Margins**

| Division | Per cent of Total revenue (Rs 1049.2 cr) (9MFY10) | Growth YoY | Margins | Expected Growth Next year (%)* |
|---|---|---|---|---|
| TCI Freight | 50.24 | 4% | 4% | 5-7 |
| TCI XPS | 26.50 | 6% | 9% | 15-20 |
| TCI Seaways | 4.20 | -7% | 26% | 15-20 |
| TCI Supply chain | 16.10 | 35% | 6% | 35-40 |
| TCI Global | 1.00 | 35% | Negative | 20-25 |
| Others | 2.00 | - | - | - |

* This is management expectation

To cater costal cargo requirements company came out with TCI Seaways for transporting container and bulk cargo from island ports to neighboring countries. This division has well equipped ships in its fleets and has 5 ships with capacity of 2500 – 4500 DWT (deadweight tonnage), which includes project ships equipped with own cranes. For nine month ending December 2009, this division posted sales of Rs 44.5 crore, which was lower by 6.7 per cent from the same time last year. The reason for such fall was non availability of one ship for last quarter due to breakdown. Going forward this division is expected to catch its momentum as one more ship will now be available for operation. To provide global logistic requirement, primarily to India centric companies, TCI has established TCI Global. This division has nine International wholly owned subsidiary in countries like Singapore, China, Germany etc and at 14 locations in India to function smoothly.

### Financials and Valuations:

When we talk of company's financial, it has been able to beat industry average, which is assumed to grow at 1.5 times of GDP growth rate. Company's revenue has grown by GAGR of 15 per cent for the five year ending March 2009. While net profit in the same period has grown by 28 per cent CAGR. However what is disturbing is that in same time total assets of the company has grown by 33 per cent this means that company was unable to optimally utilize its assets. This is even reflected in the deteriorating return on net worth of company from 25.13 per cent in FY06 to 10.43 per cent in FY09. But Agarwal explained "We raised equity of Rs. 52.5 crores in 2007-08, returns on which we are receiving now".

The current valuation of the company's scrip looks little bit stretched. CMP of Rs 119 discounts company's trailing twelve month (TTM) earning by 20.69 times which is on higher side of valuation as TCI's EPS growth is at 18 per cent in last five years. When we compare with other logistic companies which are much larger in size like Allcargo and Container Corporation of India are also trading at PE of 20. But despite this we ask our readers to take exposure in the counter with time horizon of more than one year. This is because we believe that as company's different high margin segments start contributing more to the topline, company's valuation may get re-rated and moreover company is done with capex for recent future helping it to generate more cash in future. And finally company is also expecting to unlock its value of TCI Developer's by listing it in next one year under which every shareholder holding 20 equity shares of Rs 2 each in TCI will get 1 equity share of Rs 10 each in TDL.