Investment memo – Transport Corporation of India **Date:25/08/2023**

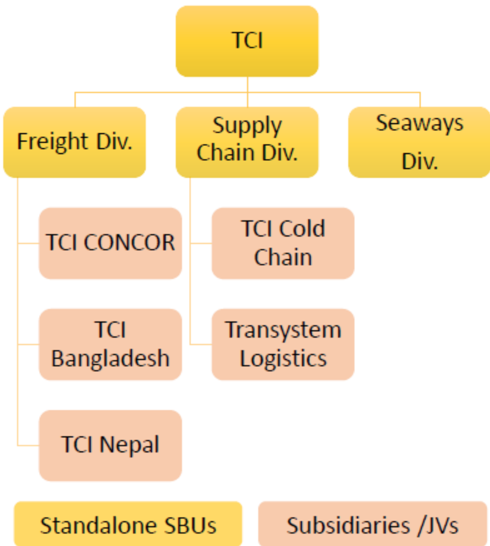
Mcap (Rs bn)	62	Shares O/S (mn)	77.6
Promoter shareholding	69%	Price (Rs)	795
Pre-tax ROCE	23%	Trailing P/E	19

Investment Summary

TCI has the right combination to drive long term compounding in earnings – a) good promoters with significant skin in the game (promotor stake ~69%), b) track record of efficient capital allocation and c) large addressable market. In our view, TCI is poised to grow its earnings at 12-15% CAGR (3-5 years) and the stock should compound at a higher rate of 15-20% CAGR given 20-30% scope for re-rating of current multiples. TCI has one of the best long term track records in the listed logistics space in terms of growth in sales/PAT in the last 5-10 years. We expect TCI to emerge a one of the larger companies in the B-to-B logistics space.

Company Background

- TCI was founded in 1958 in Calcutta and IPOed in 1982. Over the years it has evolved from primarily a trucking company into one of India's largest multi modal logistics solution provider. It is being led by Mr. Vineet Agarwal (joined as Executive Director in 1996), from the promotor family. Mr. Vineet Agarwal (age 50 years) graduated from Carnegie Mellon University (USA), before joining the company.
- TCI express business (now listed separately) was also part of TCI, before it was de-merged into a separate company in FY2017. As per our understanding, both the companies collaborate (if required) in order to offer end to end offering to a client.



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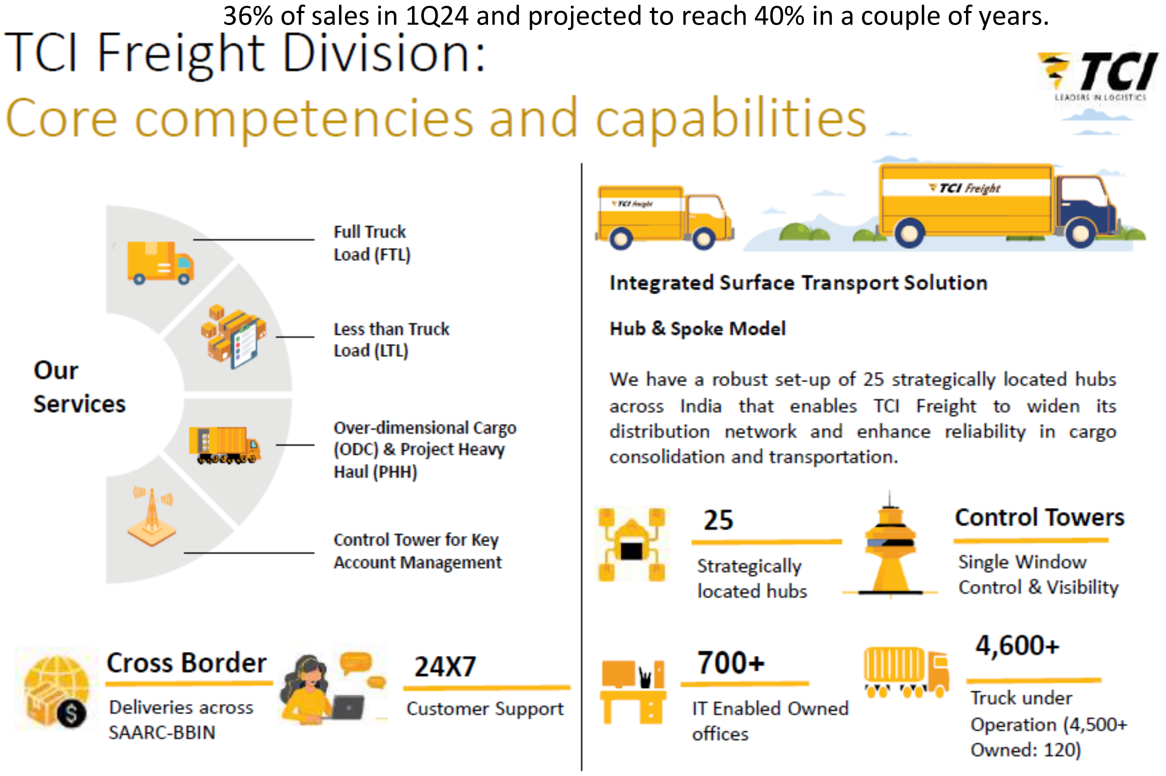
TCI's Joint Ventures

Figures in Mn

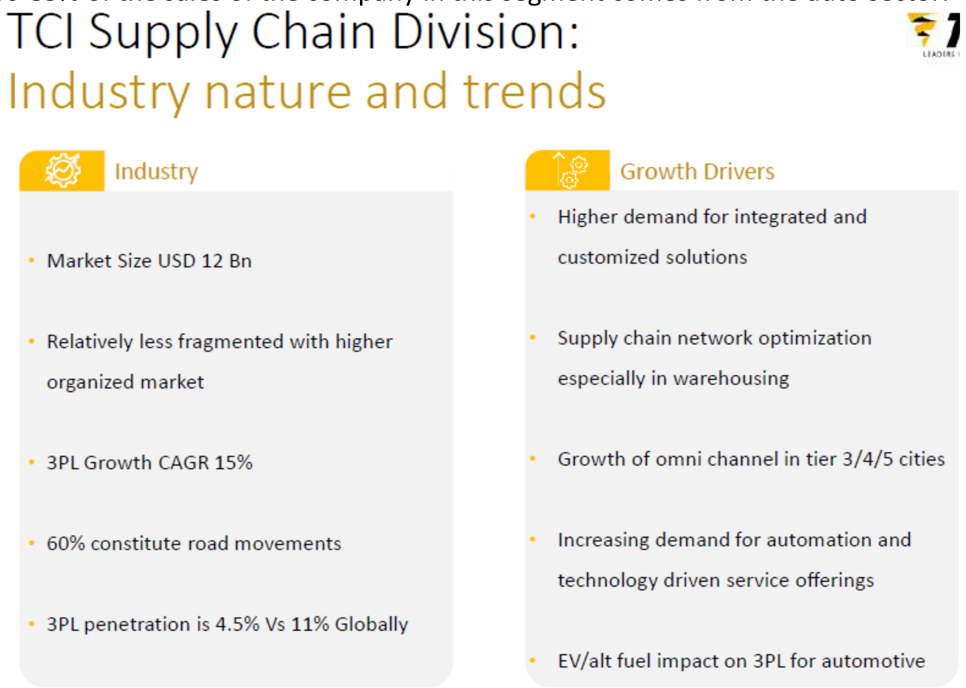
Q1 FY24 (FY23)	TCI CONCOR	TCI COLD CHAIN SOLUTIONS	Transystem
Revenue	763 (3047)	163 (601)	2253 (6920)
Y-o-Y Growth	-6.8% (1.2%)	1.1% (2.4%)	57.6% (48.2%)
PAT	14 (55)	9 (28)	330 (822)
Capital Employed	358 (314)	362 (360)	3342 (3110)
Strategic Partner's Share	49%	20%	51%
Key Operational Highlights	Operates on asset-light model Building upon its capabilities of integrated multimodal logistics solutions Chemicals, Food Grains, Metals etc	Cold chain services to cater temperature control Warehousing, Primary & secondary distribution requirements.	Focused on automotive logistics of Japanese clients

Everything Logistics

- The business has 3 segments –
    a. Freight division comprising of Full Truck Load/Less than truck load (FTL/LTL) services – Endeavor of the company is to provide end to end solution to a client using multiple offerings under this segment. However, a considerable part of the FTL business could also be plain vanilla (single offering) so as to maintain relationship with a large client.
        i. Contribution of FTL has been reducing gradually in this business. LTL business was 36% of sales in 1Q24 and projected to reach 40% in a couple of years.



b. Supply chain services (SCS) – The company provides end to end 3 PL services to large companies. 3PL services consist of an integrated offering of – design/planning of entire supply chain (inbound and outbound), transportation and warehousing. It is meant for large companies only and these companies can choose to outsource full/or-parts-of their supply chain. TCI is one of the top 5 companies in India in this segment of business; almost 80-85% of the sales of the company in this segment comes from the auto sector.



c. Seaways – TCI operates 6 ships which provide logistics services on the western, southern and eastern ports of India. The service could be standalone or multi-modal (last and first mile through truck or rail).

TCI Seaways Division: Core competencies and capabilities

Our Services

- One of the leading multimodal coastal players having presence along the **Western, Eastern & Southern ports of India**
- Expertise in coastal shipping services, container & bulk cargo movements, and transportation services
- First-mile and last-mile connectivity via rail & road
- Multi-modal solutions with reduced carbon footprint (Green logistics)

8,500+
Own Multipurpose Marine Containers

06
Domestic Coastal Ships

77,957 DWT
Total Capacity

7
Out of 13 Major Ports Served

Segment numbers, consolidated, March fiscal year-ends

	2018	2019	2020	2021	2022	2023
Sales (1)	**23,499**	**27,536**	**27,178**	**28,024**	**32,588**	**37,826**
FTL/LTL	11,992	13,988	14,351	14,789	16,895	19,197
Supply Chain	9,126	10,241	9,490	9,711	10,639	13,405
Seaways	2,564	3,593	3,677	3,953	5,578	5,990
EBITDA	**2,165**	**2,495**	**2,405**	**2,612**	**4,109**	**4,240**
EBITDA (%)	9.2	9.1	8.9	9.3	12.6	11.2
EBIT (1)	**1,533**	**1,870**	**1,760**	**1,865**	**3,113**	**3,247**
FTL/LTL	336	425	442	522	675	784
Supply Chain	605	710	566	607	649	818
Seaways	591	735	753	735	1,790	1,645
PBT	1,301	1,542	1,438	1,672	3,028	3,230
Adj. PAT (incl share of assoc and MI)	1,232	1,451	1,522	1,602	2,896	3,207
Segment capital deployed						
FTL/LTL	2,476	2,620	2,530	2,623	2,423	2,948
Supply Chain	2,796	3,210	3,071	3,604	3,646	3,882
Seaways	3,022	3,645	4,210	3,909	3,780	3,593
Unallocable	3,911	4,429	4,942	4,628	5,571	7,769
Segment ROCE						
FTL/LTL	13.6	16.2	17.5	19.9	27.8	26.6
Supply Chain	21.6	22.1	18.4	16.9	17.8	21.1
Seaways	19.6	20.2	17.9	18.8	47.3	45.8
Consol company pre-tax ROCE	**13.7**	**14.0**	**12.3**	**13.4**	**24.3**	**23.4**
Composition of sales (%)						
FTL/LTL	51	51	53	53	52	51
Supply Chain	39	37	35	35	33	35
Seaways	11	13	14	14	17	16
Composition of EBIT (%)						
FTL/LTL	22	23	25	28	22	24
Supply Chain	39	38	32	33	21	25
Seaways	39	39	43	39	57	51

Note: (1) Sum of segment numbers is not equal to reported numbers as we have excluded some smaller segments and also inter-segment elimination of sales

Nature of the business

- **Freight division (FTL/LTL)**
    - FTL service offered on standalone basis is a pure commodity. Competition here is intense as entry barrier is low – a) there is no requirement of network infra (hubs, docking points etc) and hence low capital intensity, b) service is simple (point to point) and hence hard to differentiate. Competition is mostly with unorganized vendors and hence it is tough to – a) get decent ROCE and b) drive growth sustainably. On paper FTL market is pretty big (USD 180 bn), however, this number is not relevant as most of this market is not addressable for the likes of TCI.
    - TCI's business model is to mostly offer FTL as part of a solution which incorporates its LTL service as well.
    - LTL is a business in which the network (warehouses/hubs footprint) and service organization that the company has built is important driver of competitive edge. Hence, margins (10-12% EBITDA versus ~3% in FTL) and ROCEs are much better. Also, the business can be scaled up in a sustainable manner in the long term.
    - LTL business is different from express business –
        - Cargo is generally heavier (more than 30 kgs) while in express mostly heavy cargo is not moved,
        - Express is time bound. In LTL the client is ok with 2-4 days delay in delivery.
        - LTL cargo is of varied nature (engine blocks, machines, spare parts etc) which travels together and hence some of the express customers like apparel companies (or where the end product is packed in uniform packaging) don't prefer to use LTL service as there is risk of damage,
        - LTL is used for relatively lower value goods on which high cost of express transportation can't be loaded. Typically, in terms of cost per kg, LTL is 20-30% cheaper than express.
        - There is no requirement of first mile and last mile in LTL while it is almost mandatory in Express.
        - Due to varied nature of cargo, it is difficult to automate cargo handling at the hubs in case of LTL.
    - LTL business has seen some acceleration in growth post implementation of GST as is evident in the numbers of VRL Logistics (pure play LTL company). VRL tonnage transported grew at 8.8% CAGR in FY19-23 versus 1.8% CAGR in FY15-19. In our view reasons are:
        - As per our understanding, in the pre-GST regime, clients operated fragmented supply chains with a separate warehouse in each state. Hence, they sought LTL service mostly on shorter routes within the state or specific routes outside the state.
        - National/organized players had to deal with different unorganized/regional competition on different routes. Each unorganized/regional player had created efficient LTL service on specific/limited routes, where they had the relationships/client base to ensure efficient utilization of fleet and hence were able to compete effectively with national/organized players.
        - Post GST, supply chains have been consolidating as now a company can service multiple states from a single warehouse. This led to clients looking for LTL vendors who could provide solutions in multiple states or pan India which led to national/organized players gaining market share.
        - Also, service requirements of clients have been increasing. For example – a) clients now want continuous tracking of their cargo, b) logistics vendors need to accurately predict the time of arrival of cargo, etc etc. Organized players have the required human resource (service organization) and have made necessary

        investments into their systems to be able to constantly upgrade their service levels and hence have been gaining market share.
    - As per TCI, organized players have ~15% share of LTL market; share is gradually moving up.
- TCI makes segment margins of ~4% (FY23) in this business. Segment margins have been on a rising trend (~3% in FY19) mostly due to rising share of LTL in the sales mix (35% in FY23 versus 33% FY20). Sales have grown at a CAGR of ~10% in the last 5 years.
- FTL business requires working capital in the range of 60-70 days and there is not much requirement of fixed assets (either trucks or other physical infra like hubs, warehouses etc).
- LTL business requires investments in fixed assets – a) network of hubs (TCI has 25 of them pan India) where cargo is consolidated and de-consolidated. Also, branches are required (TCI has 700 plus) which function as sales offices and cargo aggregation points. Hubs/branches can be rented as well, b) handling and other infra in hubs and offices, c) investment into trucks depends on company's long-term strategy. TCI mostly rents; only 120 out of 4500 trucks in operation in FTL/LTL business are owned. VRL owns almost entire fleet in its LTL business. Working capital investment is minimal with 10-15 days of sales at the maximum.
- In case of freight segment of TCI, fixed assets are only ~10% of segment assets (reported under segment results). Most of the real estate (owned) used in the business comes in unallocable assets under segment reporting. Hence, looking at segment ROCE in this segment does not convey the right picture of capital efficiency parameters of this business. Just for a perspective, pre-tax ROCE of VRL logistics has been in the range of 20-22% for the overall company, in the last 8 years; this is despite owning the fleet in contrast to TCI.

- **Supply chain services –**
    - As per reports, size of SCS market in India was pegged at US$8 bn (overall logistics spend of US$44 bn) in FY21, implying a penetration of ~20%. Research reports project SCS to be a high growth industry (growth of ~25% CAGR in the next 3-5 years). In our view, industry numbers don't project the right picture in terms of size of the addressable market as:
        - Classification of logistics activities into 3 PL or non 3 PL is loose. For example – a vendor managing a small warehouse on behalf of a company on cost plus basis and deploying minimum levels of automation or value add would also be classified as 3PL while ideally that should not be the case as the value add is minimal and hence business is not relevant/addressable for major companies in this business.

      Hence, in our view, size of the addressable market for relevant players in this segment is much smaller than what one would assume looking at the above numbers. However still ,potential to grow is significant in the coming years on account of low base.

    - Addressable market for 3PL services started expanding post implementation of GST. Before that, on account of requirement (to save on tax) of having a warehouse in each state, companies did not bother much about optimal design of their supply chains. However, post GST, the above being not necessary, companies started looking at re-designing their supply chains depending on their business objectives –

      a) to increase efficiency by consolidating warehouse footprint across the country, or

      b) to move closer to the customer to increase service levels and hence have warehouse footprint closer to their customers.

      In our view, given sensitivity of clients towards any possible disruption in the supply chain and possibly higher costs of outsourcing, they would move slowly and hence this trend towards outsourcing is going to continue for a long time to come; clients will start with smaller chunks of their supply chain and increase scope with time depending on their service experience with various vendors.

- In our view, a company with a relevant offering can grow at any rate it wants (depending on its risk-taking ability) in this business as –

  a) the main KRA of any supply chain manager in a company (3PL's client) is to reduce logistics cost and hence any credible (top 10-15 companies) 3PL player offering lower price gets the contract without there being any thorough due-diligence of the solution being offered (in terms of whether reduced cost can be offered sustainably or not), either by the client or the company (3PL itself),
  b) addressable market is large and current penetration levels are low,
  c) it is easy to show on an excel sheet (by 3PL sales managers eager to achieve sales targets, to their top bosses) how the contract will start with suboptimal margins (as substantial savings are promised to clients from day one) and then after 3-4 years as the contract gains scale, how operating leverage will materialize and 3PL player will end up making lot of money; it rarely ends that way.

- Hence typically, when companies press the growth pedal in this business led by shareholder/investor pressure to show high growth to justify lofty valuations, it usually ends in disappointment as – a) growth projections on excel rarely materialize which bloats the cost per unit, b) 3PL player having signed a contract, has to endure losses or very low margins, c) 3PL player then has little motivation to invest in order to achieve the promised SLAs which leads to client dis-satisfaction, d) ultimately the contract is cancelled by either of the two parties whenever it is legally permitted. In the recent 2-3 years, some of the prominent contracts which went through trouble and in our view were cancelled, are – Bajaj Electricals – Mahindra Logistics, Delhivery – Voltas.

- In our view, offering of top 5 companies in this segment is not that differentiated and hence it is difficult to charge a premium while bidding for large contracts.

- Due to the above nature of this business, it is important that the top management of a 3PL player is not driven by single minded focus on growth but focused on balancing growth with a sharp eye on margins/ROCE. Hence, it could become imperative to slow down growth in times when competition is super aggressive so as to protect the balance sheet and position the company for long term success rather than chasing things like market share, growth leadership on quarter-on-quarter basis.

- 3PL business offers limited scale advantages which could enable a company to create sustainable cost leadership on pan-India basis as mostly infrastructure deployment (warehouses etc) is local/regional and hence any other 3PL company having a similar scale in that local area but significantly lower scale outside can offer the same scale advantages to clients. Hence, in our view, 3PL market would always remain fragmented. As per our understanding, global 3PL market has also exhibited trends highlighted above –

  - 3PL market has remained fragmented in developed markets of US and Europe.
  - Typically, 3PL companies in developed markets are not able to grow earnings at the same rate as sales when they are exhibiting higher growth rate than usual as they take a hit on margins in order to garner more business.

        - During periods of slowdown, when the reality hits, and when actual quality of business got in the previous years shows up, 3PL companies tend to get out of unprofitable/long-tail contracts and that's when earnings growth starts coming.

- All the above shortcomings of the 3PL business are quite visible when we look at the performance of top companies (Mahindra Logistics, TVS Supply Chain) in the last 5 years. Sales have grown, however, growth at the PBT level is quite dismal. TCI in that regard has stood out as it has grown sales at a decent pace while retaining margins.

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- In India, 3PL business has the highest penetration in auto industry (30-40%) and e-comm (almost 100%).
    - Auto Industry runs a complex supply chain in which 1000's of parts need to travel maybe from multiple locations in the country to the central assembly facility almost just in time to enable the final assembly line to run without a hitch. Incase a part is delayed, it could stop the entire assembly line and hence a huge loss for the OE client. Hence, service delivery requires reasonable level of capability and hence auto companies are very quality conscious while appointing a 3PL vendor and are willing to pay decent margins.
    - E-comm business is all about ensuring great customer experience (delivery of right goods on time) which requires a robust supply chain and hence we would assume that e-comm companies are also very quality conscious while outsourcing supply chain to a 3PL vendor. However, in our view, given very high growth in this segment in the last 5 years and hence eagerness of logistics companies to tap this segment, margins were low which could be changing now.

  Hence in our view, any good 3PL company needs to have dominant presence in both of these verticals, in the long term. In case of TCI, auto is ~80% of the supply chain business. The company has stuck to the auto vertical as a conscious strategy as –
  a) Auto companies perceive more value in 3PL services and hence are more quality conscious and hence pay decent margins,
  b) As per TCI, its penetration in its major accounts as well as the overall auto segment is pretty low at this point and hence it can drive decent margins and growth at the same time in this vertical, in the long term, and
  c) Competition in the e-comm segment has been very high in the last 5 years and hence the company chose to bid for business in a limited manner; this could change now.

- TCI's SCS business has grown sales and EBIT at a CAGR of ~8% and ~7%, respectively in FY18-23. Growth rate has been subdued as –

  1) Auto industry went through a lean patch in 2018-20 and two years after that were wasted in COVID,
  2) TCI was conservative in bidding for new contracts as level of competition was very high in the market led by private equity led companies, and
  3) Generally sluggish economy.

However, in our view, growth should be better at ~15% CAGR in the coming years as –

a) Auto industry is expected to grow 6-8% CAGR versus flattish growth in 2018-2020,

b) In our view, competition in the 3PL market is a tad lower versus 2018-20. Some pointers:

  - Private equity backed logistics companies are hard pressed to move towards profitability,
  - In 1Q24, SCS sales of Delhivery declined by 13% yoy,
  - Mahindra Logistics (and TVS SCS also which are amongst top 3 companies in the segment) has been struggling with low profitability since the last 2-3 years. FY24 PAT would be 1/3rd of FY19 levels; Hence, we don't think the company would be too adventurous in driving growth,
  - TVS SCS is also coming out with an IPO after which in our view, there would be focus on showing improving profit margins.

- **Seaways –**

  - This business has grown strongly for TCI in FY18-23 with sales and EBIT, growing at ~18% and ~22% CAGR, respectively. This business also makes the highest segmental ROCE at ~44%; ROCE is also fairly representative of the actual ROCE of the business as there is minimal investment into real estate in this business and hence very little capital deployed in this business is part of unallocable assets, as is the case with other segments of the business. 80% of capital deployed in this business is in ships and remaining mostly in working capital (40-50 days of sales).
  - Taxation in this business is very low (low single digits %); that's the reason behind low tax rate reported by TCI in its consolidated accounts.
  - FY20 presentation mentions –

    a) Size of the industry at US$1 bn (should be almost 2X now in line with TCI's growth in FY20-23),

    b) TCI's market position as second largest in the business and

    c) Long-term growth trajectory of 10% CAGR. Given only 6% share of coastal shipping in transportation modal mix in India and significant investments planned by government of India to enhance infrastructure in and around the ports, in our view, growth is sustainable in the next 5-10 years.
  - TCI's growth in this business from FY20-23 is mostly driven by higher realization as capacity in terms of DWT has come down from 91880 tons in FY20 to 77957 tons in FY23. FY22 had one off element (return cargo from Myanmar which is no longer there) in sales on account of which EBIT margins increased to 32% (FY22) versus range of 20-23% in the previous years. Margins have been tapering down. In our view, EBIT margins in the range of 25-28% should be sustainable.
  - TCI's growth in this business has been hampered in the last 3 years on account of very high inflation in the price of ships (TCI requires low-capacity second-hand ships of ~25000 DWT capacity). Last ship was bought in 2019 for Rs850 mn; price of the same ship would be 2X right now. TCI has been reluctant buying ships at the market price given low ROCE it would entail for the first 5 years. However, given that prices are on a declining trend it is possible that the company is able to close a couple of transactions in the next few quarters.

Investment rationale

- Good promoters + responsible capital allocation + large addressable market = sustainable compounding of earnings over the long term. In our view, promoters are good and the business is well-managed. Reasons:
    - Pre-tax ROCE has been increasing since FY16. Pre-tax ROCE has averaged ~24% in FY22/23 (one-offs led to high ROCE in FY22) which is pretty good considering B to B nature of the business and is in line with any other well-run B to B business (without IP). In our view, long term pre-tax ROCE would sustain in the vicinity of ~15-20% in the long term.
    - Amongst all listed peers, track record of TCI stands out in terms of long-term growth in profits, consistency of growth and maintaining a decent ROCE all along.
    - We have been following the company since 2018. During 2019-22, sales of supply chain segment of TCI were flat while other major companies were growing faster. At that time, the mgmt. had clearly communicated that other companies were bidding for large contracts at very low-price levels in their endeavor to drive growth and hence TCI stayed away from such contracts. This subsequently proved right which is evident in case of – a) much publicized contract of Mahindra Logistics with Bajaj Electricals was scrapped recently, b) Delhivery's 3PL contract with Voltas was also scrapped after couple of years. In the recent past, with auto sector recovering and the competition reducing a bit, the company has started growing faster than other leading companies in the supply chain business.
    - In the supply chain business, the company has consciously stuck (~80% of sales) to auto segment due to reasons explained above.
    - The company did not acquire any ships for the last 3 years as prices had increased to levels at which the ROCEs were sub optimal. This is despite the company having a robust balance sheet which could have easily afforded a few mistakes.
    - On first look at the company, TCI might seem like a an 'old economy' company which is mostly into non-differentiated boring businesses, however, in our interactions with the company we have found the management to be extremely conscious of making investments into the company to incorporate latest technologies to increase efficiency or improve customer experience. For example – we came to know that before creating supply chain offering in India, the top management visited almost 50-60 large warehouses running auto supply chains in developed markets, so as to create a relevant offering for India. Also, the company has 49% JV (Transystem) with Toyota Group which provides supply chain services to mostly Japanese auto and auto-ancillary companies in India. We would presume offering of Transystem would be at par with best in the world (relevant technologies in the Indian context) and TCI gets first-hand knowledge of the same.

Mahindra logistics	2018	2019	2020	2021	2022	2023	CAGR (%)
Sales	34,161	38,513	34,711	32,637	41,408	51,283	8.5
SCM Segment	30,757	34,658	31,036	31,447	39,387	48,677	9.6
PTS segment	3,405	3,855	3,675	1,191	1,444	2,606	
PBT (excluding other income)	962	1,258	672	245	127	187	-27.9
ROCE%	24	26	13	6	5	6	
Delhivery	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	
Sales		**16,539**	**27,806**	**36,465**	**68,823**	**72,253**	44.6
Express parcel		13,731	19,289	25,505	41,947	45,530	
Part-truck load (PTL) Freight		1,402	2,307	3,842	13,901	11,570	69.5
Truck load (TL) Freight			3,659	2,141	2,848	4,372	
Supply chain services		1,320	2,149	3,901	5,509	7,827	56.0
Cross border services		86	344	964	3,182	2,970	
PBT (excluding other income)		-18,388	-4,769	-5,662	-11,822	-13,715	
ROCE%							
TVS Supply Chain	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	
Revenue from operations	54,333	67,799	66,045	69,336	92,498	1,02,354	13.5
India		17,938	19,274	16,732	24,368	30,267	14.0
Outside India		49,862	46,772	52,604	68,129	72,087	9.7
PBT (excluding other income)	567	-515	-4,322	-1,356	-736	-503	
ROCE%	10.2%	6.4%	-0.4%	0.3%	5.8%	6.1%	
VRL logistics	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	
Revenue from operations	**19,089**	**20,984**	**21,061**	**17,629**	**23,937**	**26,485**	6.8
Goods transport	15,153	16,853	17,239	15,928	21,374	26,088	11.5
Bus Operations	3,587	3,803	3,437	1,303	2,048		
Others	349	328	385	398	514	397	
PBT (excluding other income)	1,252	1,326	940	509	1,879	1,876	8.4
ROCE%	22%	21%	16%	10%	22%	18%	
TCI - Express	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	
Revenue from Operations	**8,851**	**10,238**	**10,320**	**8,440**	**10,815**	**12,410**	7.0
PBT (excluding other income)	817	1,087	1,126	1,246	1,638	1,774	16.8
ROCE%	40%	44%	38%	34%	36%	33%	
TCI	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	
Revenue from Operations	23,499	27,536	27,178	28,024	32,588	37,826	10.0
FTL/LTL	11,992	13,988	14,351	14,789	16,895	19,197	9.9
Supply Chain	9,126	10,241	9,490	9,711	10,639	13,405	8.0
Seaways	2,564	3,593	3,677	3,953	5,578	5,990	18.5
PBT (excluding other income)	1,374	1,582	1,382	1,455	3,095	3,305	19.2
ROCE%	14	14	12	13	24	23	

- Promoter or management with substantial skin in the game is essential for long term growth in B to B logistics business, with low 'network effects'. TCI's most of the business (FTL, SCS, Seaways) lack 'network effect' which can create pull based fragmented demand. In TCI's business the management has to create 'push based' demand which makes the business risky while pushing the growth pedal (explained above). Hence, it is important in a 'push based' business to have a management at the top who can see through 'excel sheet' tricks of the sales team. Due to this we believe, TCI with excellent management with significant 'skin in the game' (promoters have ~69% stake in the company) is one of the best placed companies to drive long term growth in this business.
- We believe TCI can grow its earnings at 12-15% CAGR in the long term.

- Freight business sales can grow at 10-12% CAGR. Sales and EBIT have grown at ~10% and ~18% CAGR, respectively, in this business in the last 5 years. EBIT margins have been consistently improving from 2.8% in FY18 to 4.1% in FY23. In our view, earnings growth trajectory could be in the range of 12-15% given scope of improvement in margins with increasing mix of LTL business. As per the management, LTL mix will improve from ~35% in FY23 to ~40% in FY25. Given higher margins in LTL business (8-11% EBITDA margins versus 2-4% in FTL), margin trajectory can keep on improving by few bps every year leading to higher growth in earnings versus sales.
- SCS business can grow at 15-20% CAGR in the next 3-5 years. In 2018-20, growth was flattish as auto is large (~80%) exposure for this segment and auto sector was going through a bad phase. In our view, auto volumes should grow in the next 3-5 years and given low penetration levels of TCI it should be possible to grow much faster than auto sector for the next couple of years. Also, in our view, though competition would always remain aggressive in this segment, in our view, intensity has gone down (explained above) and hence it could open avenues of growth for TCI in other non-auto segments as well.
- Seaways business should start growing again. Ship prices have started coming down which should enable the company to start growing capacity in the next couple of quarters. Growth can happen in a step jump manner as – a) company has not acquired any ship in the last 3 years, b) balance sheet is delivered right now. In our view, company can buy 2-3 ships (company has 6 ships as of now) in quick succession leading to dramatic improvement in growth profile.

TCI has grown its PAT at a CAGR of ~22% in 2018-23. In our view, long term growth in the range of 12-15% should be possible given the large addressable market.

- Long-term pre-tax ROCE should be maintained in the range of 15-20%. In our view, a well-run B to B business without any IP makes ROCEs in this range only. Hence, we don't expect any material improvement in ROCE in the coming years. Infact, if the company acquires ships in quick succession leading to capital deployment of Rs.2.5-3 bn, it could suppress ROCE for the first 2-3 years.

Valuation

The company is trading at ~19X FY23 EPS which in our view is attractive given the growth (12-15% long term earnings CAGR) and ROCE profile (pre-tax ROCE profile of 15-20%). Hence, we expect the stock to compound at a rate higher than growth in earnings in the next 3-5 years, led by a bit of P/E multiple re-rating to a range of 25-30X. Overall returns over the long term should be in the range of 15-20% CAGR.

Risks

- TCI has high dependence on auto sector (as much as ~80% in SCS) and hence there is a risk on growth front in case auto sector slows down meaningfully from its current trajectory.
- As mentioned above, TCI's management is quite conservative while bidding for large contracts in the SCS business. In case, competition heats up again, the mgmt. might take a call to not bid for new business and hence growth in this business could be materially slower than what we are anticipating in the long term.
- Lot of companies are trying to grow LTL business on account of good ROCE and growth profile. Hence, there is a risk that competition could increase and hence TCI could lose market share.

P&L, March fiscal year-ends (Rs mn)	2015	2016	2017	2018	2019	2020	2021	2022	2023
Sales	**24,167**	**17,270**	**19,425**	**23,499**	**27,536**	**27,178**	**28,024**	**32,588**	**37,826**
Supply Chain	7,813	7,802	7,374	9,126	10,241	9,490	9,711	10,639	13,405
FTL/LTL	8,908	9,685	10,590	11,992	13,988	14,351	14,789	16,895	19,197
Seaways	1,220	1,411	1,639	2,564	3,593	3,677	3,953	5,578	5,990
EBITDA	**1,943**	**1,291**	**1,617**	**2,165**	**2,495**	**2,405**	**2,612**	**4,109**	**4,240**
EBITDA (%)	8	7	8	9	9	9	9	13	11
Other income	91	526	125	144	195	201	255	178	303
Depreciation	686	774	825	928	1,130	1,214	1,306	1,437	1,580
EBIT	**1,347**	**1,043**	**917**	**1,381**	**1,560**	**1,392**	**1,561**	**2,850**	**2,962**
PBT	1,142	1,046	849	1,301	1,535	1,340	1,541	3,028	3,197
PAT (adj after share of assc and MI)	816	872	807	1,232	1,451	1,522	1,602	2,896	3,207
EPS	11	11	10	16	19	20	21	37	41
Balance sheet									
Equity	6,240	5,788	6,508	7,664	8,972	10,296	11,783	14,577	17,319
Debt	3,198	3,542	4,213	4,396	4,703	4,186	2,767	619	625
Other non-curent liabilities	295	323	415	463	410	352	457	605	610
Total sources of funds	**9,732**	**9,654**	**11,136**	**12,523**	**14,084**	**14,834**	**15,007**	**15,801**	**18,555**
Fixed assets	5,213	5,324	5,417	6,258	7,268	7,717	8,046	8,014	7,913
Other non curent assets	547	1,327	2,128	2,098	1,950	2,041	1,980	2,104	2,741
Working capital	3,455	2,841	3,345	3,575	3,868	4,542	4,214	4,735	5,081
Other current assets	95	57	59	450	844	273	371	57	93
Cash and investments	421	105	187	142	155	259	395	892	2,728
Total uses of funds	**9,732**	**9,654**	**11,136**	**12,523**	**14,084**	**14,834**	**15,007**	**15,801**	**18,555**
Cash flow statement									
Cash from operations (incl interest)	1,359	1,338	1,324	1,822	2,176	1,854	2,673	3,714	4,238
Cash used in working capital	-446	-502	-637	-576	-758	231	107	-163	-729
Capex	-1,423	-1,035	-1,153	-1,591	-1,291	-1,336	-1,530	-760	-1,560
FCF	-510	-198	-466	-345	126	749	1,250	2,792	1,948
Return ratios (%)									
ROE	13	15	12	16	16	15	14	20	19
ROCE (pre-tax)	16	9	11	14	14	12	13	24	23

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