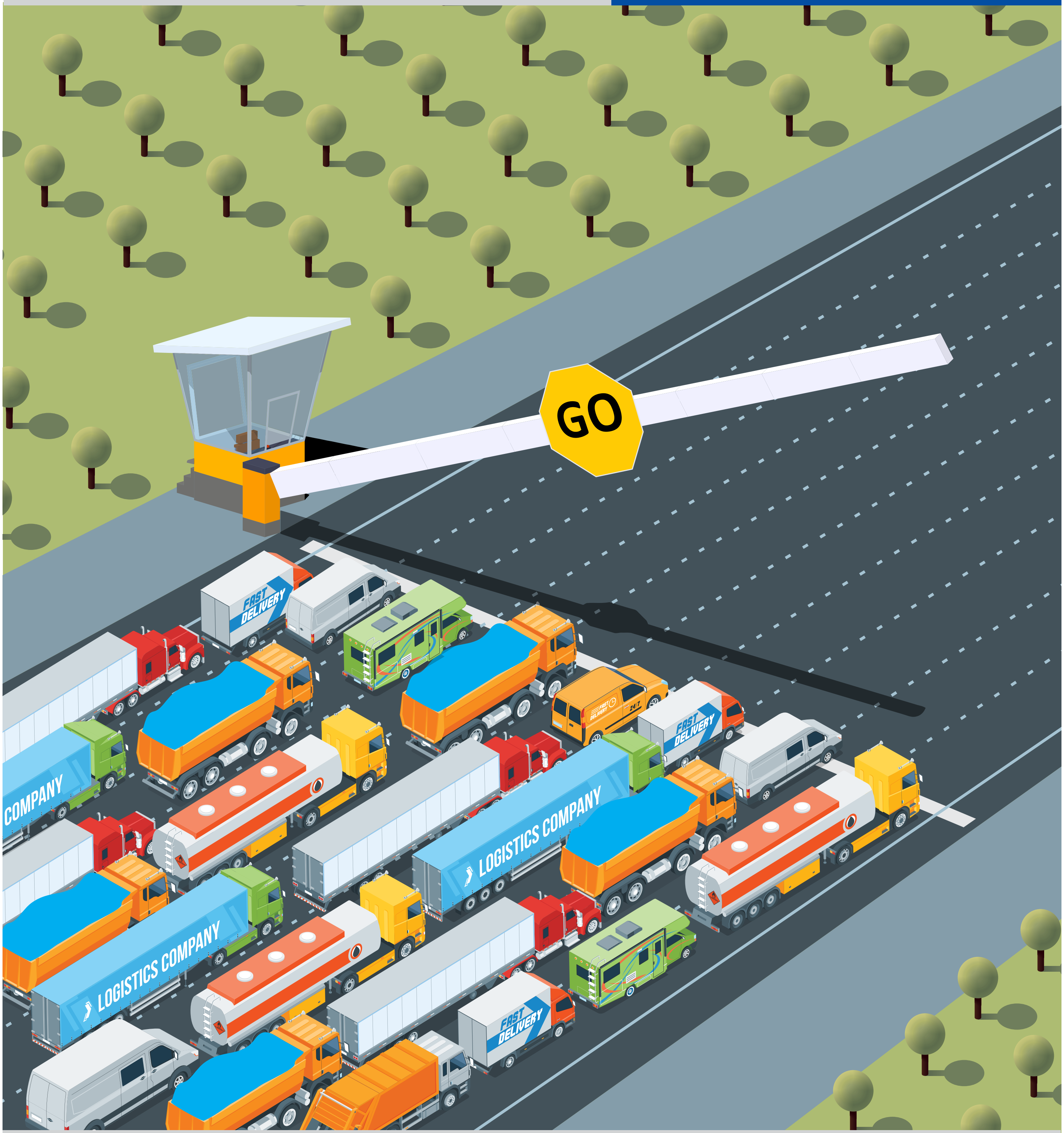
India Logistics

Clear road ahead

November 26, 2018

Edelweiss
Ideas create, values protect



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Edelweiss Securities Limited

Executive Summary

(Click here for video clip)

On the cusp of transformation: In the ensuing decade, we envisage a potent mix of drivers to transform the large (USD220bn plus), yet inefficient, Indian logistics sector. We estimate a confluence of favourable factors—GST tailwinds, reducing transit times, warehouse consolidation, infrastructure status and rapid adoption of technology—to drive sector growth to 12-13% p.a. Nearly one-third of India's logistics costs is transport and storage related inefficiencies. We expect these inefficiencies to reduce in coming years, which will boost logistics spending.

Large opportunities to become larger: We estimate growth rates ranging from 7-18% for various sub-segments. Transportation, pegged at USD150bn plus, is a huge segment and growing at 9-10%, with road as the dominant mode—USD100bn plus in size (~10% growth). We estimate India's container rail sector to post 12-13% CAGR over the next five-seven years. Niche markets such as road express and third party logistics (3PL) can potentially clock ~18% CAGR till FY25E.

Cost economics favour organised pockets: We estimate robust margin (10% plus) and return profiles (20-40%) for the more organised pockets such as express and 3PL, where entry barriers & pricing power are high and the industry structure is not fragmented. On the other hand, almost ~90% of road transport suffers from low pricing power, fragmented ownership and hence <10% RoCE.

Our preferred segments to play: We like the niche road express segment (USD2bn), which is posting 17-18% CAGR and can be an USD7bn opportunity by FY25E. We also estimate the USD6bn 3PL market to clock 17-18% CAGR and potentially become an USD17bn market by FY25E. To us, these segments appear to be multi-year structural growth plays with long growth runways.

Top picks: Within 3PL, we like **Mahindra Logistics (BUY)** and **TCI (BUY; has a 3PL division)** as they have a proven track record, strong market positioning and large client base. In the express market, we like **TCI Express (BUY)**, one of the market leaders in B2B road express, which has a robust branch and sorting centre network. We are negative on **Blue Dart Express (REDUCE)** as air is losing market share to road express and the company's profitability is likely to be challenged in the medium term in a rising cost environment. We are neutral on **Container Corp (HOLD)**, where Dedicated Freight Corridors (DFC) will boost volumes and efficiency meaningfully, but majority of upside is baked into current valuation.

Valuation and risks: For capturing the structural long-term opportunity and value of the 3PL market, we value MLL, TCI Express and TCI's 3PL division on DCF. While we estimate that current valuations imply FY18-28 EBITDA CAGR of 17-18%, realistically EBITDA CAGR of 20-21% is achievable. For other stocks such as Blue Dart, Concor and VRL, which are semi-structural, we rely on PE or EV/EBITDA-based relative valuations—based on their growth and return profiles. Key risks to our thesis are: slower-than-expected implementation of GST, rising oil prices and hence rising fuel costs, depreciating INR and disruptive tech business models.

Contents

Investment Thesis

An opportunity in inefficiency

Nearly one-third of India's logistic cost (~4% of GDP) is due to inefficiency such as lower road & rail speeds, higher inventory levels and theft & damages. We see several factors combining to reduce these inefficiencies over the next decade. A favourable confluence of GST tailwinds, reducing transit times, warehouse consolidation, the new infrastructure status and rapid adoption of technology solutions are estimated to drive sector growth to 12-13% p.a.

Dominance of road transport, despite being the costliest mode, is likely to sustain due to expanding road infrastructure. We like niche segments such as 3PL and road express which are structural multi-year opportunities and clearly stand out based on long-term growth potential, margins and return profiles.

Chart 1: Logistics inefficiency worth 4% of GDP likely to fall

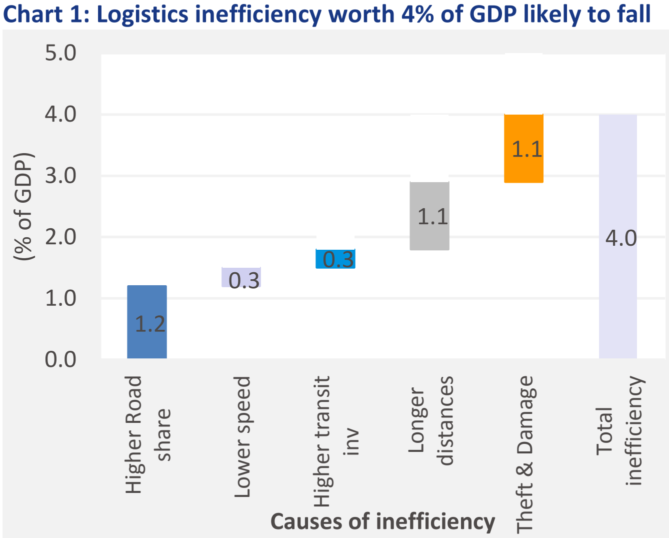


Chart 2: Road, despite higher cost, will remain dominant

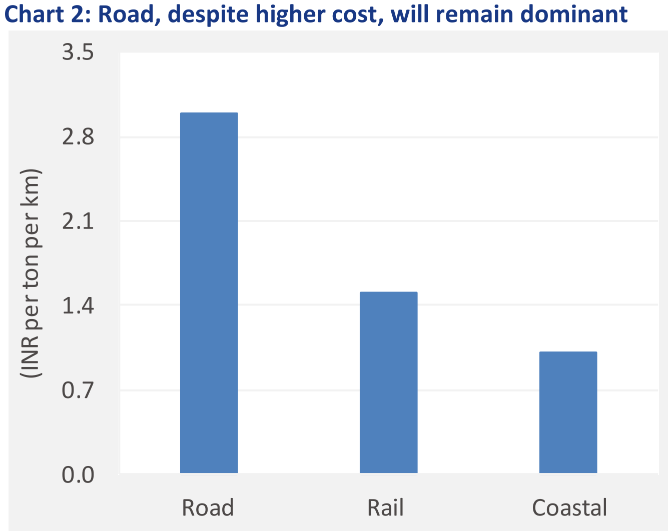


Chart 3: 3PL & Road Express stand out on growth & RoCE

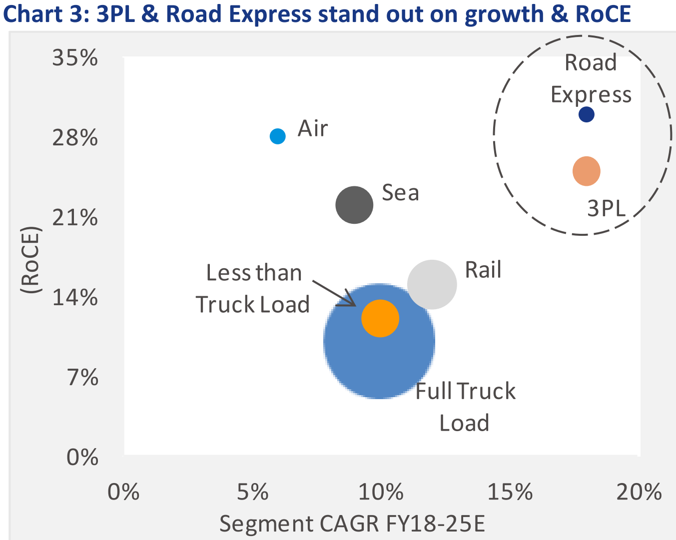
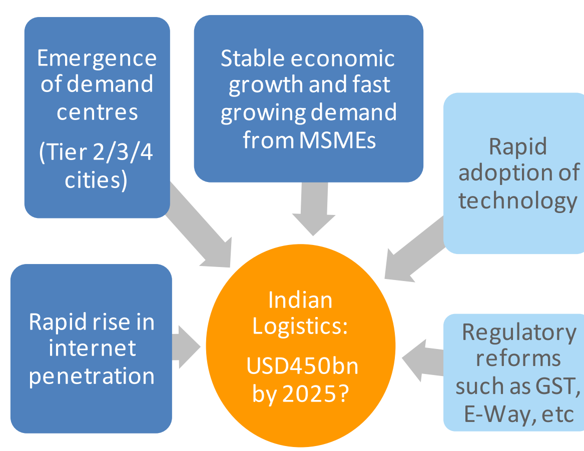


Fig. 1: Logistics—Key demand drivers & supply drivers



Source: Edelweiss research

Note: Bubble size represents the segment size

Backing asset light aggregators, steering clear of asset-heavy models

In our view, business models that are aggregation based with an asset light or partnering approach will be key beneficiaries in coming years. While asset-light models seem an easy entry option, the partnering asset owners (vehicle or warehouse owner) generally tie-up with only established players. As a result, asset-light model aggregators have a natural moat through high entry barriers. Road transporters (especially small FTL operators) and general warehouse owners continue to suffer from low pricing power due to fragmented ownership in India. This strengthens our preference for 3PL and road express players which follow an asset light and aggregation model.

Table 1: Growth prospects, cost economics, size of opportunities and financial metrics by sub-sector

	TRANSPORTATION (USD150b+)							
Broad segment	**Road Transport (USD110bn+)**			**Container Rail (USD17b)**	**Domestic Air Express (USD0.8b)**	**Coastal / Seaways (USD10b)**	**3PL (USD6b) *(End to End solutions)***	**WAREHOUSING / STORAGE *(USD100bn+ that includes mostly high inventory costs)***
Sub-segment	***FTL***	***LTL***	***Express***					
Growth prospects								
FY18-25E CAGR	10%	10%	17%	12%	7%	8-10%	18%	12%
Current size (USD b)	90	10	2	17	0.8	10	5.8	100
2025e size(USD b)	165	18	6.5	37.6	1.3	17	17.3	180
Nature of growth	Cyclical	Semi-cyclical	Structural	Cyclical	Semi-	Cyclical	Structural	Cyclical
Competitive landscape								
Industry structure	Fragmented	Moderate	Organised	Organised	Organised	Organised	Organised	Fragmented
Entry barriers	Low	Mod to High	High	High	High	High	High	Low to Mod
Pricing power	Low	Mod to High	High	Moderate	Moderate	Moderate	High	Low to Mod
Proposition to customer								
Cost to consumer	INR 2-3 per ton km	INR 5-8 per ton km	INR 15-20 per ton km; INR14-16/kg	INR 1-2 per ton km	INR 60-80 per ton km; INR60-70/kg	INR 1 per ton km	NA	INR 15-25 per sq ft
Delivery time (hours)	96 - 120	72-96	< 72	24-72	24-72	96 - 120+	Continuous	NA
Margin & Return profile								
EBITDA margin (%)	2-4%	8-11%	10-12%	16-18%	9-13%	25-35%	5-15%	10-25%
RoCE (%)	10-12%	15-16%	30-45%	13-15%	30-35%	20-22%	25-35%	10-20%

Source: Edelweiss research

Table 2: Presence in business segments by company

	TRANSPORTATION (USD150b+)							
Broad segment	**Road Transport (USD110b+)**			**Container Rail**	**Domestic Air Express (USD0.8b)**	**Coastal / Seaways (USD10b)**	**3PL (USD6b) *(End to End solutions)***	**Warehousing / Storage**
Sub-segment	***FTL***	***LTL***	***Express***					
Mahindra Logistics							✓	
Future Supply Chain							✓	
Container Corporation				✓				
Blue Dart			✓		✓			
VRL Logistics	✓	✓						
Transport Corp of India	✓	✓				✓	✓	
TCI Express			✓		✓			
Gati			✓		✓			
Navkar								✓
Aegis Logistics								✓
All Cargo		✓				✓	✓	✓
Gateway				✓				

Source: Company, Edelweiss research

India's 3PL market size can reach ~USD17bn by FY25E

India's 3PL market, currently pegged at ~USD6bn, can potentially reach ~USD17bn by FY25, in our view. We see two key growth drivers: (i) a mindset shift among large clients to outsource logistics to 3PL players and focus on core business; and (ii) recent supportive regulatory reforms such as GST should boost warehousing expansion at central hubs in the country.

We believe, technology will be a critical enabler in the 3PL sector's growth and can potentially turn out to be a differentiating factor between success and failure. The competitive landscape in 3PL has anchor and non-anchor based 3PL players as well as players fully focused on e-commerce (growing at 30% plus). Based on our proprietary model which evaluates various success factors, we believe anchor-based (captives) players such as **Mahindra Logistics, Future Supply Chain and TVS Logistics** are well placed to ride the 3PL market growth over the next five-seven years and clock 16-18% sales CAGR.

Chart 4: Indian 3PL market can reach USD17bn by FY25E

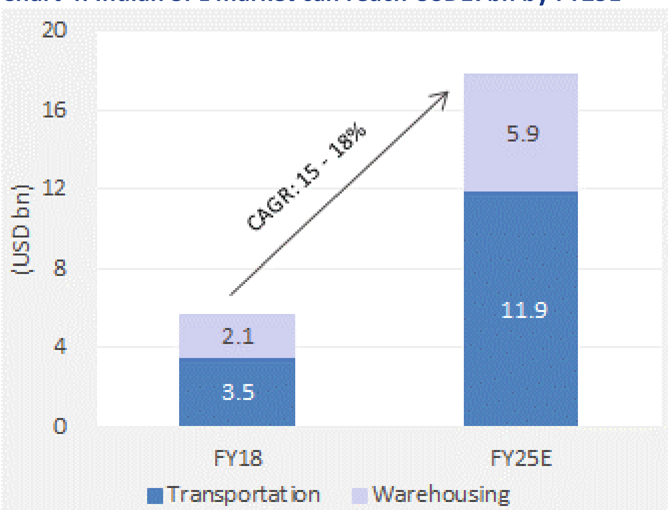


Fig. 2: Key demand drivers & enablers for 3PL

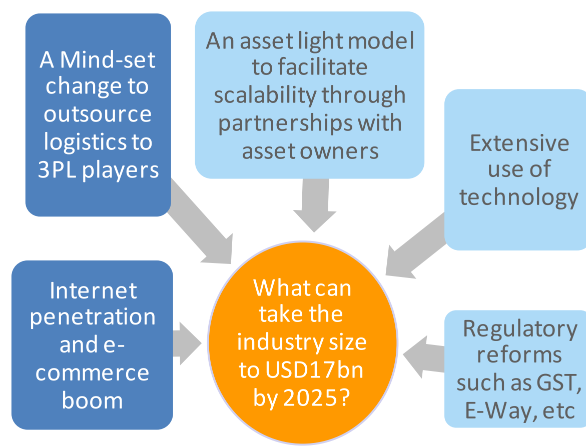


Fig. 3: 'Right to Win' success factors for 3PL in India

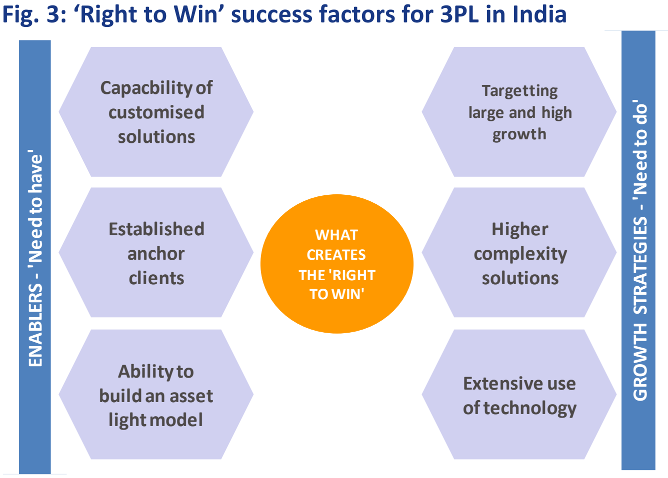


Fig. 4: 3PL market—Competitive landscape

Source: Company, Edelweiss research

Express market: Shift from air to road will continue

India's surface express market (~USD2bn) is a niche but proven growth category. Currently, India's road express market accounts for mere 2% of the overall road logistics market and ~55% of India's overall express market (USD3.7bn). Over the past five years, there has been structural shift from express air (4-5% CAGR) to surface express (17% CAGR).

Key factors driving this are reducing transit time on road, expanding road infrastructure and use of technology. Hence, we expect the surface express market to clock 17-18% CAGR to reach ~USD6bn till FY25E. **Our top pick in this category is TCI Express, which is a direct play on this niche category. Our stance on Blue Dart is negative** as we believe that underlying growth in the air express market will remain muted and there will be medium-term challenges due to high air fuel costs.

Chart 5: Surface will lead the market growth of express market

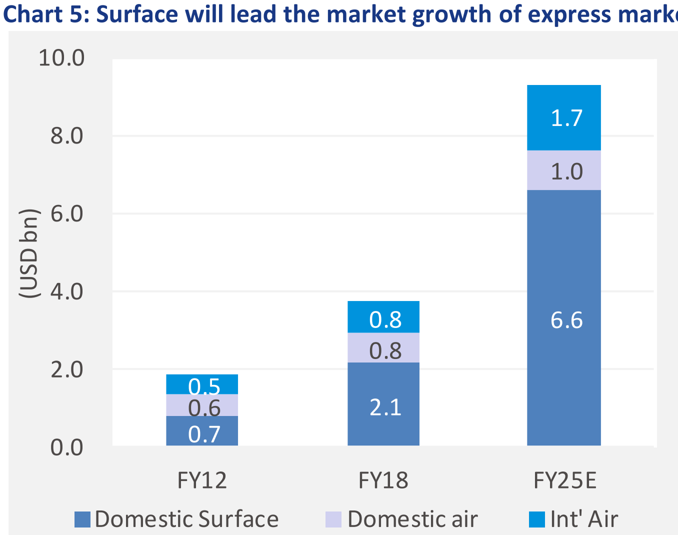
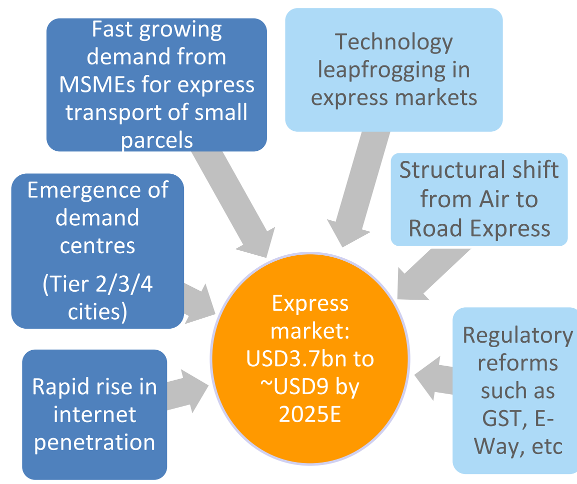


Fig. 5: Express market—Key demand drivers and enablers



Source: Company, Edelweiss research

Fig. 6: Express market—Success enablers

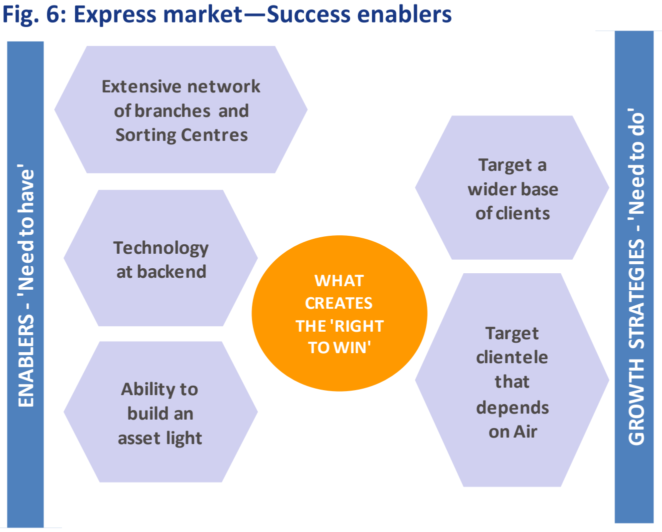
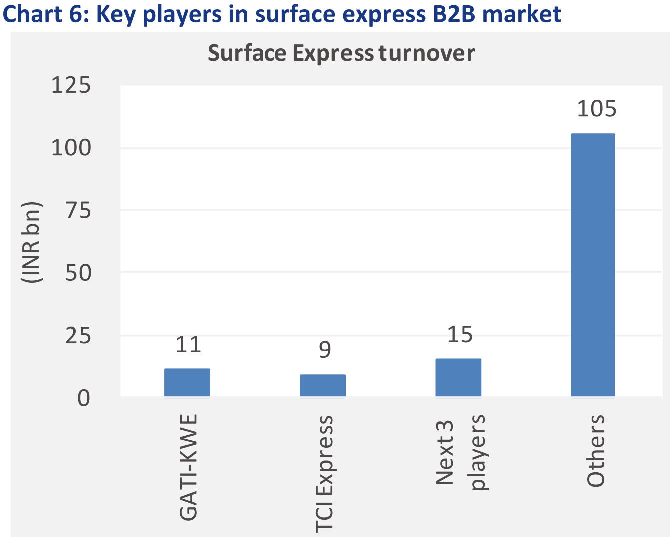


Chart 6: Key players in surface express B2B market



Source: Company, Edelweiss research

Road & rail logistics: Largely a neutral stance

India's transportation sector (USD150bn plus) is dominated by the road segment (~75%) which has seen huge infrastructure investments over the past decade. On the other hand, there has been under-investment in rail, leading to it losing share within transportation. **In the past 12-18 months, we are seeing a transformation trend of FTL moving to LTL or express rapidly as customers are demanding smaller and quicker deliveries directly to distributors rather than multiple warehouses in every state.**

We are bullish on TCI as it is increasing the higher margin LTL mix in its portfolio; **we are neutral on VRL** as we believe it may face some medium-term challenges and its mix of FTL/LTL is already optimal, leaving little scope for margin/RoCE improvement. **In rail logistics,** though DFCs will bring in a new dimension after many decades with increased freight carrying capacity, we believe the benefits will be gradual **and hence our stance on Concor is neutral.**

Chart 7: Fragmented truck ownership limits pricing power

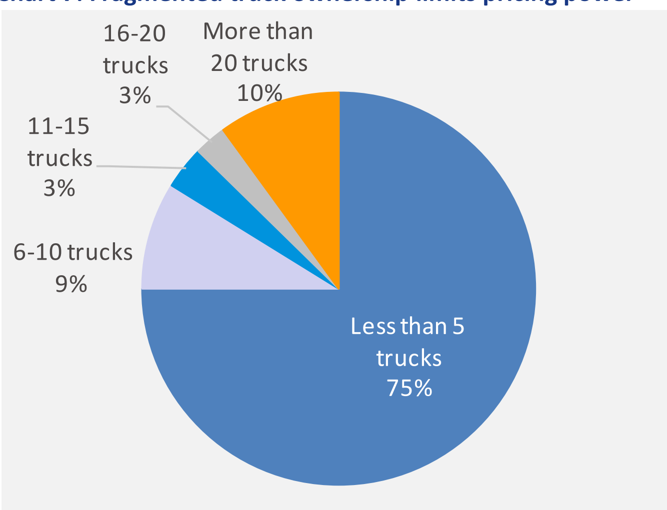
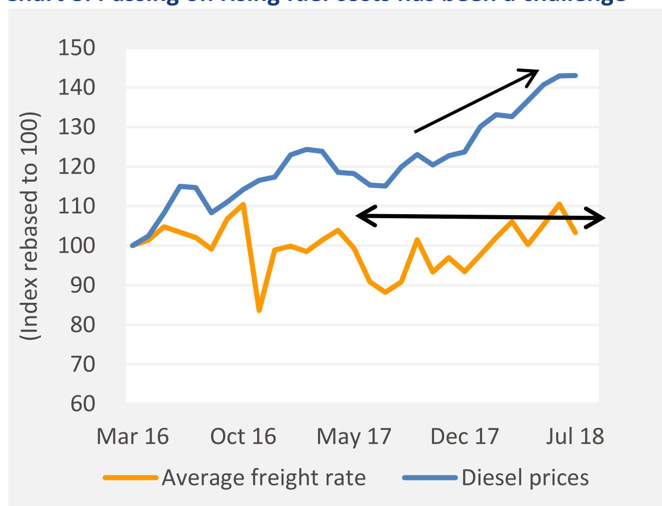


Chart 8: Passing on rising fuel costs has been a challenge



Source: Company data, Bloomberg, Edelweiss research

Chart 9: Rail container freight volumes have been steady

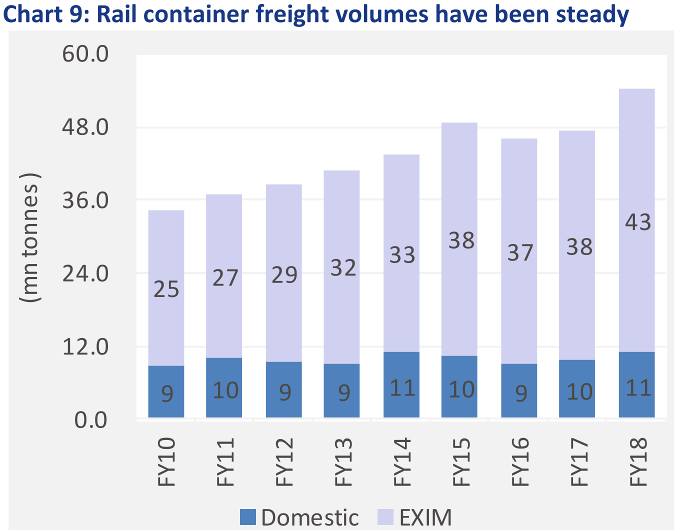
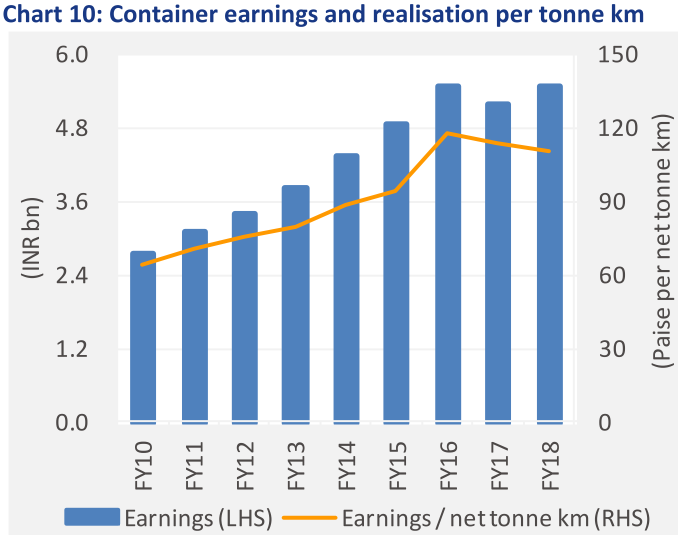


Chart 10: Container earnings and realisation per tonne km



Source: Ministry of Railways, Edelweiss research

Table 3: Companies initiated in this report

	Rating	Mcap (INR bn)	CMP (INR/sh)	TP (INR/sh)	Upside/ (Downside) %	Business	Investment rationale	Sales FY18-21E CAGR	EPS FY18-21E CAGR
Mahindra Logistics	Buy	37.6	513	640	24.7	Third Party Logistics	Mahindra Logistics (MLL) is one of the leading third-party logistics (3PL) companies in India with about 60% of business coming from its anchor client, its parent company - Mahindra and Mahindra. MLL is a multi-year compounding story in our view as: 1) it is one of the most equipped plays on the high-growth Indian 3PL space (CAGR of ~17% given strong demand drivers and enablers) with the right strategic attributes to outpace industry growth; and 2) high earnings growth momentum (about 31% EPS CAGR over FY18–21E), which provides a strong fundamental backing to its current valuation. We are thus initiating coverage on MLL with a 'BUY' and a target price of INR640.	12.4	34.6
TCI Express	Buy	23.3	613	765	24.9	Road Express	TCI Express (TCIE) is one of the leading surface express companies in India with a 5% market share in the B2B space. In our view, the company is well-positioned for multi-year growth as it: 1) continues to be a beneficiary of the structural shift from Air Express to Road Express; 2) has all the right enablers in place to outpace peers; and 3) is gearing up for growth through the next decade with INR4bn worth of investment, which would quadruple its sorting centre capacity. We are initiating coverage on TCIE with a 'BUY' and target price of INR765.	17.8	21.6
TCI Ltd.	Buy	21.1	277	318	14.8	Road transport, Third Party Logistics & Coastal	We initiate coverage on Transport Corporation of India (TCIL) with a 'BUY' and target price of INR318. We are bullish on TCI as: 1) it is focusing on changing is business mix by growing the high margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for 15-17% CAGR over the next 6-7 years which will add the structural growth element to TCIL's business and; 3) We believe that the market continues to undervalue the long term potential of TCIL's 3PL segment by atleast 25-30%.	15.7	13.6
Blue Dart	Reduce	73.4	3,110	2,200	(29.3)	Air Express	Blue Dart Express (BDE) is the market leader in India's air express market with 50% plus market share. However, we expect the stock to face challenges on growth, profitability and valuations as: 1) air express as a category continues to lose share to road express; 2) BDE will continue to face challenges in sustaining margin given the challenging cost environment; and 3) it is likely to remain in an earnings downgrade cycle given the high expectations built by consensus. Hence, initiate coverage with 'REDUCE' and target price of INR2,200 (based on PE of 30x on FY20).	11.5	10.3
Container Corp.	Hold	327.2	674	736	9.3	Container Freight Transport	Container Corporation (Concor) is India's largest container train operator with 74% market share. While container tonnage has been growing, consistent fall in lead distances has led to flat net tonne km during FY13-18. Concor has countered this stagnancy well during FY16-18 by ramping up double stack trains, leading to notable margin expansion, and we expect this to continue. DFC commissioning will certainly be a meaningful boost to volumes and efficiency post FY20, but actual DFC volumes are likely to be lower than the government's optimistic forecasts, in our view. We estimate that one-third of current valuation is DFC-related and while downside is limited for current valuation, upsides will be moderate as well. Hence, we initiate with 'HOLD' and INR736 target price.	11.5	14.6
VRL Logistics	Hold	28.0	307	312	1.6	Road transport	VRL Logistics (VRL) is one of the leading road transporters in India focusing on less-than-truckload (LTL) operations. VRL has built and scaled up a solid business model with a strong client base. We find VRL runs a solid business optimally, but mix improvement would be difficult hereon as ~70% of its sales are already LTL-based. A jump in fuel costs year to date is hurting profit margin, and this challenge may persist into 2019 as well. We are valuing VRL at a PE of 24x given its earnings growth & RoEs, (currently at 23x) and initiating with a 'HOLD' rating.	10.6	13.0

Source: Edelweiss research

This ***'Valuation – Implied Growth' Quadrant*** *depicts the implied 10-year earnings CAGR on the X-axis, and the current valuations on the Y-axis*

The quadrant essentially shows where the attractive value lies within our coverage, and where over-optimism is built in the current valuations

Valuations: How much to pay for growth?

DCF captures the potential of structural growth stories better

For structural compounding stories such as **Mahindra Logistics (BUY), TCI Express (BUY) and TCI's supply chain division (BUY on TCI)**, we use three-stage DCF for arriving at our fair value target prices. Further, our approach is to look at what implied earnings CAGR the current valuations are factoring in over the next decade.

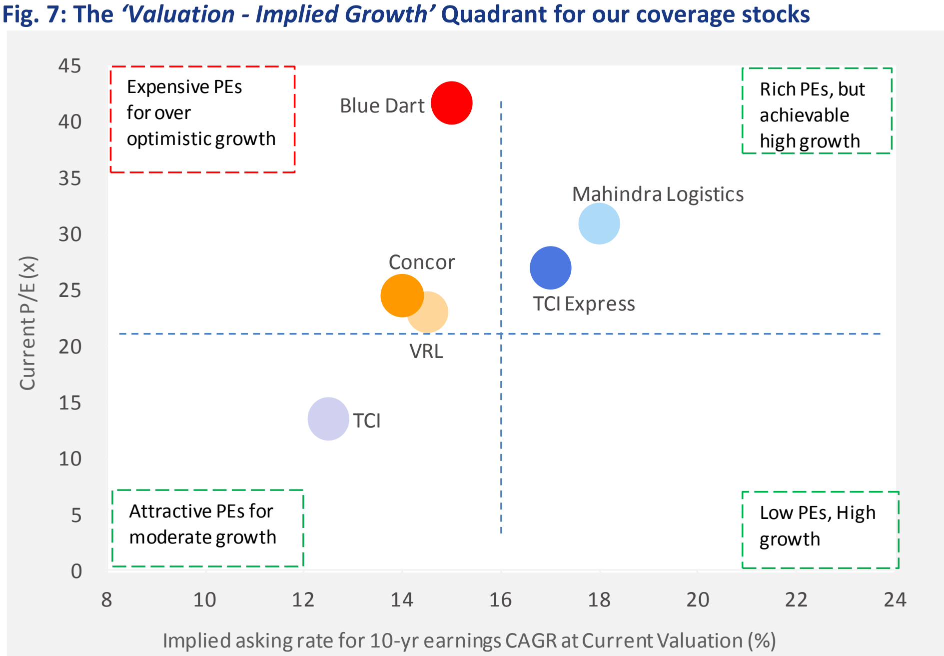
Using this, we see current valuations are discounting achievable earnings CAGR for all the three stocks (compared to what we believe is the realistic potential). Our DCF indicates that current prices of these three stocks factor in FY18-28 implied EBITDA CAGR of 16-18%, while we believe 20-21% EBITDA CAGR expectation is realistic and achievable, thus reflecting upsides from the current level.

Relative valuations for semi-cyclical stocks

For **Blue Dart (REDUCE), Concor (HOLD) and VRL (HOLD),** which are semi-structural in our view, we assign PE-based valuations. These multiples are based on their earnings growth and return ratios. We value Blue Dart at PE of 30x as we believe it is a fair multiple which captures a realistic long-term earnings growth of ~12%. At current PE of 40x (FY20E), it will need to deliver ~15% EBITDA CAGR for the next 5-10 years, which will be difficult, in our view.

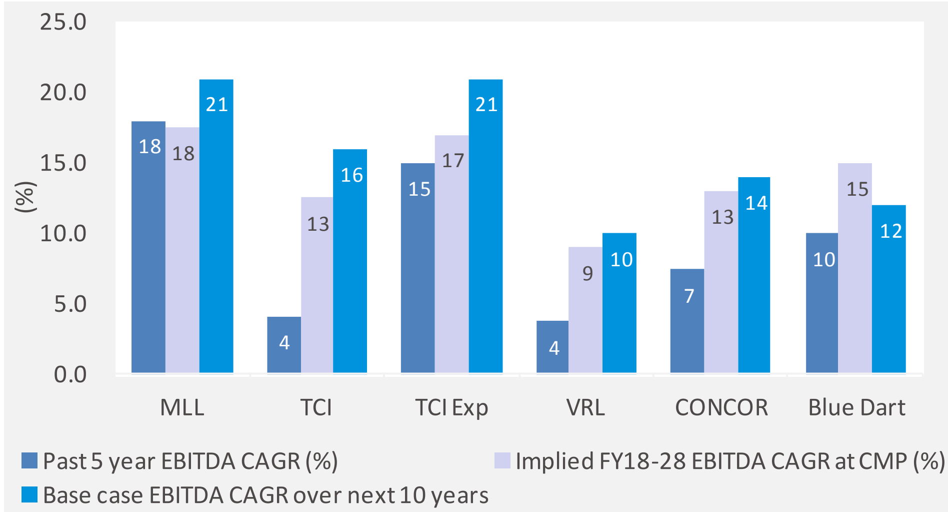
To **Concor** we assign PE multiple of 18x to its existing business based on its long-term earnings growth potential and use cash flow valuation for DFC-related earnings. However, the upside is limited, in our view. In our view, one third of Concor's current valuation comes from DFC's option value. We value **VRL** at PE of 23x to arrive at one-year TP, which we believe is fair given the long-term EPS growth of 14-15%.

Fig. 7: The *'Valuation - Implied Growth'* Quadrant for our coverage stocks



Source: Bloomberg, Edelweiss research

Chart 11: Actual EBITDA CAGR during previous 5 years, implied EBITDA growth at current valuations and our base case EBITDA CAGR



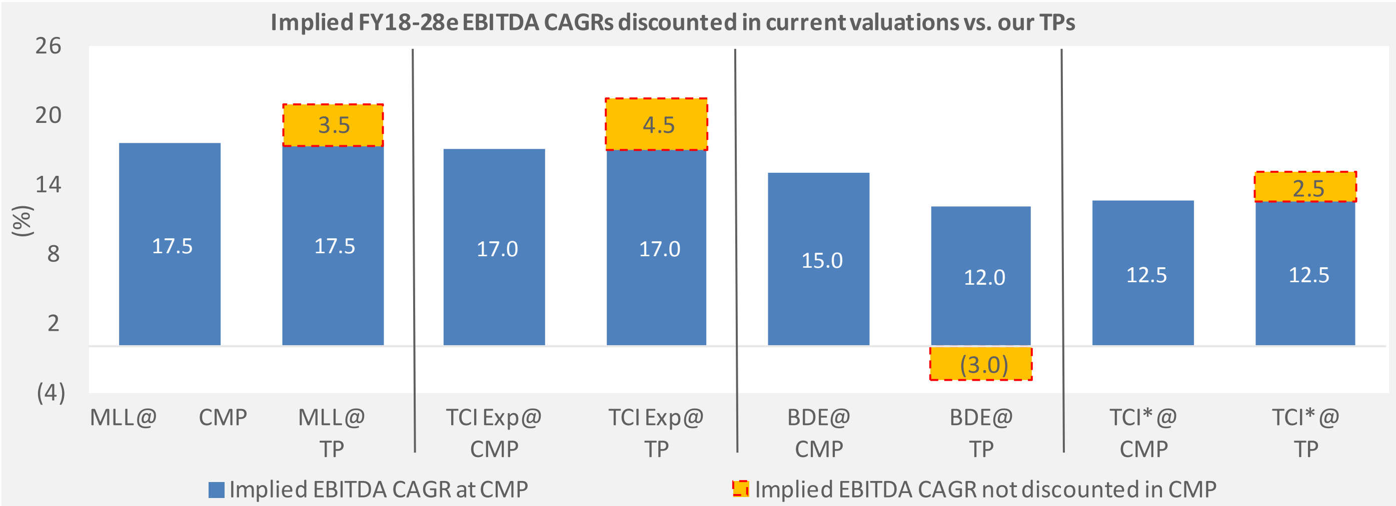
Source: Company, Edelweiss research

Table 4: Valuations of key domestic logistics companies

					PE (x)		RoE (x)		CAGR (FY18-20E)			OCF/EBITDA		
Stock	CMP (INR/sh)	TP (INR/sh)	Mcap (INR bn)	Rating	FY19E	FY20E	FY19E	FY20E	Sales	EBITDA	EPS	FY18E	FY19E	FY20E
3PL														
Mahindra Logistics	513	640	37.6	Buy	38.2	31.3	20.7	21.1	12.4	25.4	34.6	10.0	60.9	58.9
TCI Ltd.	277	318	21.1	Buy	14.8	13.3	17.7	17.4	15.7	17.5	13.6	84.7	70.5	67.8
Future Supply Chain	655	866	26.2	Buy	27.4	20.0	19.5	23.9	50.1	38.3	50.1	127.0	N/A	N/A
Express														
TCI Express	613	765	23.3	Buy	33.8	27.2	29.6	29.3	17.8	25.0	21.6	81.5	55.0	56.7
Blue Dart	3,110	2,200	73.4	Reduce	50.4	38.9	24.6	24.0	11.5	9.5	10.3	90.2	77.1	77.0
GATI	80	N/A	8.4	Unrated	35.1	20.3	3.9	6.2						
Rail														
Container Corporation	674	736	327.2	Hold	27.1	23.9	11.9	12.8	11.5	17.1	14.6	88.6	74.4	80.6
Road														
VRL Logistics	307	312	28.0	Hold	27.9	23.6	16.1	17.0	10.6	10.2	13.0	87.8	75.2	72.7
CFS/ICD/Warehousing														
Navkar	86	N/A	12.6	Unrated	9.8	6.9	7.2	9.3						
Snowman	36	N/A	6.0	Unrated	38.0	18.5	3.6	7.2						
Aegis	215	N/A	72.2	Unrated	30.2	22.4	18.0	20.9						
Gateway Distriparks	163	N/A	17.2	Unrated	17.3	15.5	10.9	13.2						
Allcargo	100	N/A	23.7	Unrated	9.9	7.5	10.1	11.7						

Source: Bloomberg, Edelweiss research

Chart 12: Implied 10-year EBITDA CAGR at current valuations vs. our fair value TPs



Source: Edelweiss research

Our top Buy & Reduce calls

Mahindra Logistics (Mcap: INR37bn; CMP: INR513; TP: INR640; BUY)

We initiate coverage on Mahindra Logistics (MLL) with **'BUY'** and target price of INR640. MLL is one of the leading 3PL companies in India with ~60% business from its anchor client, the Mahindra Group. We believe it is a multi-year compounding story as: 1) MLL is one of the most equipped plays on the high-growth 3PL space and has the right strategic attributes to keep outpacing industry growth; 2) we expect the 3PL sector itself to continue to post 17-18% CAGR given the strong demand drivers & enablers; and 3) high earnings growth momentum is expected to sustain (~31% EPS CAGR over FY18-21), which provides a strong fundamental backing to current valuations. **Key downside risks to our thesis are:** slower-than-expected implementation of GST, rise in fuel costs, depreciation of INR and disruptive tech-based competitive models.

TCI Express (Mcap: INR23bn; CMP: INR615; TP: INR765; BUY)

We commence coverage on TCI Express (TCIE) with **'BUY'** and DCF-based TP of INR765. We see TCIE as a structural growth story as: i) it is a leading play on the B2B surface express market with a scalable asset-light model that spans across India with own network of branches & sorting centers; ii) the road express sector is estimated to continue to post 17-18% CAGR as a structural shift is underway from air express, growth in SMEs is also an important demand driver; and iii) TCIE is positioning itself for the next decade with investments of ~INR4bn lined up over the next five years for expansion in sorting centers. **Key downside risks to our thesis are:** slower-than-expected implementation of GST, rise in fuel costs, depreciation of INR and disruptive tech-based competitive models.

TCI (Mcap: INR22bn; CMP: INR294; TP: INR318; BUY)

We initiate coverage on TCI (TCIL) with **'BUY'** and SOTP-based TP of INR318. We are positive on TCIL as: i) it has built a sizeable 3PL-supply chain business of nearly ~INR10bn despite the lack of any anchor client—this reflects that it has the right enablers in place to scale up this business rapidly; (ii) the company is focused on improving the mix in its freight business as it enhances LTL component in this segment; and (iii) seaways continues to be steady contributor to profit with a strong asset base. Moreover, valuations are compelling at PE of ~11x FY20E earnings. **Key downside risks to our thesis are:** slower-than-expected GST implementation, rise in fuel cost, INR depreciation and disruptive tech-based competitive models.

Blue Dart (Mcap: INR73bn; CMP: INR3,110; TP: INR2,200; REDUCE)

We initiate coverage on Blue Dart Express (BDE) with **'REDUCE'** and target price of INR2,200. BDE is the market leader in India's air express market with 50% plus share. We expect the company to face challenges on growth profitability and valuations as: 1) air express as a category continues to lose share to road express; 2) BDE is likely to continue to face challenges in sustaining margin given the challenging cost environment; and 3) BDE is likely to remain in an earnings downgrade cycle given the high expectations built by consensus. Our assigned PE of 30x is based on our implied FY18-25 earnings CAGR of 12%. The stock currently trades at FY19/20E PE of 64x/40x which implies 15% earnings CAGR, which seems high to us. **Key upside risks to our thesis are:** a sharp fall in fuel costs which will help air express compete harder, better-than-expected cost cutting measures and disruption in surface express which has been capturing share from air express.

An opportunity in inefficiency

With this report, we initiate coverage on India's logistics sector. The logistics sector, though very large at ~USD220bn plus, is highly inefficient. However, now we believe the sector is ripe for transformation with the recent regulatory reforms such as GST, e-way bill, grant of infrastructure status and a new dedicated Department of Logistics. Rapid adoption of technology is further aiding this change. In addition, certain niche categories within the sector are proving to be significantly more structural than others and these smaller pockets can continue to be large value creators. In this report, our endeavour is to identify these niche themes, winning business models and the best stock plays on these structural growth opportunities.

Efficiency gains likely to be first leg of value creation

At more than 12-13% of GDP, India's spending on logistics has been inefficient due to poor infrastructure, a fairly inefficient taxation structure (till GST was introduced recently) and a non-optimal modal mix significantly skewed in favour of road transport. We believe, infrastructure and regulations will get more growth supportive over the next five-seven years, which should create high efficiency gains. In transportation, road transport is likely to remain dominant, and we see some compelling and niche opportunities within road logistics.

While high logistics cost as a percentage of GDP is not only an indicator of an inefficient network, a global comparison shows that India's logistics spend at 12-13% of GDP is higher than developed countries (~9%) and also higher than the global average 11.6%. This is primarily because of its poor infrastructure, inefficient taxation structure till recently and non-optimal modal mix

Table 5: India's basic but key logistics parameters versus global

Key parameters	India	Global
Average truck speed (in km/hour)	30 - 40	60 - 80
Average freight rail speed (in km/hour)	24	25 - 35
Airport waiting time - Export/Import (Hours)	50/182	12/24
Turnaround time at ports (in hours)	84	7 (HK and Singapore)
Logistics Performance Index 2018 rank	44	US: 14; China :26
Logistics cost % of country's GDP	13%	7-8% developed countries

Source: Indian Railways, World Bank, Edelweiss research

Chart 13: India's LPI ranking in the past decade has been stagnant

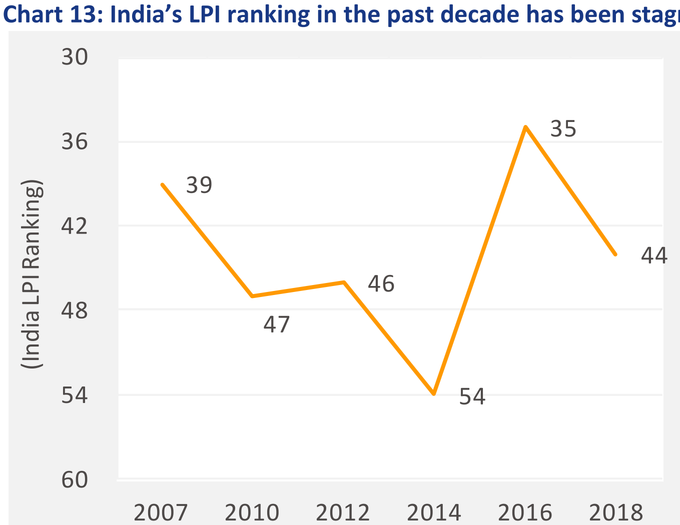


Table 6: LPI rankings of main countries

Rank	Country
1	Germany
2	Sweden
3	Belgium
4	Austria
5	Japan
14	United States
26	China
44	India

Source: World Bank; Edelweiss research

Nailing the inefficiency

According to several global studies, of the 12-13% spends on logistics in India, roughly ~4% is related to inefficiencies in the system. These relate to:

a. **Transportation related:**

   i. **High mode cost (1.2%):** PPP adjusted, road/rail is 30%/70% more expensive than US.

   ii. **Lower transport speed (0.2%):** ~50% of global average.

b. **Warehousing/inventory related:**

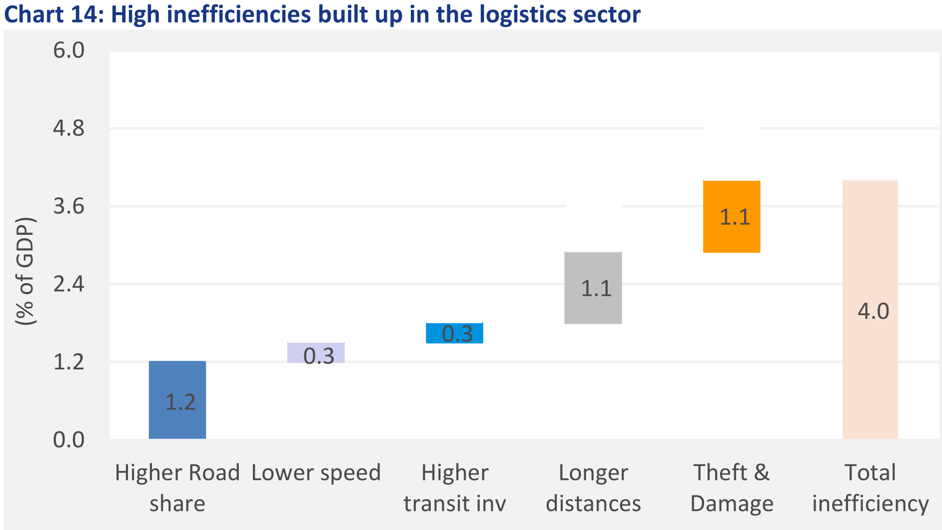
   i. **Additional inventory (0.3%):** Higher transit inventory.

c. **Common costs:**

   i. **Longer distances (1.1%):** Based on longer average distances travelled relative to other large countries.

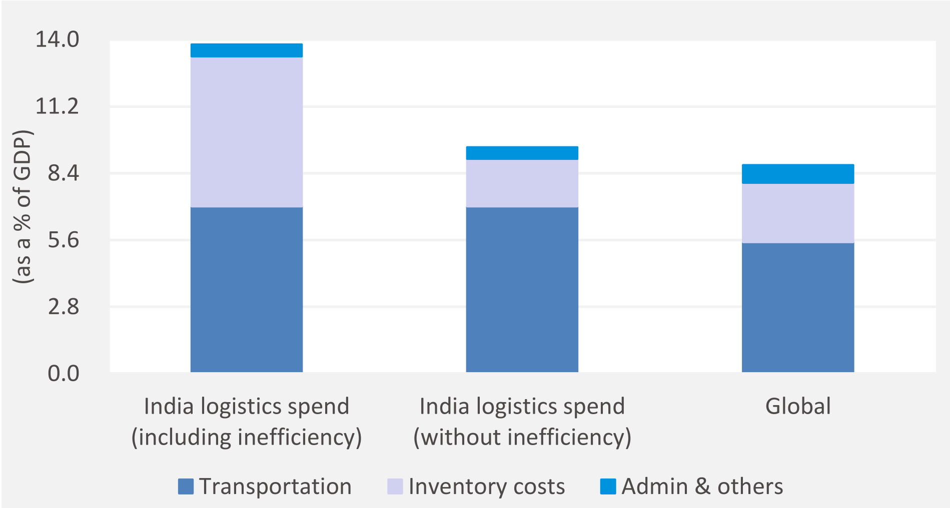
   ii. Theft and damage (1.1%).

Chart 14: High inefficiencies built up in the logistics sector



Source: Edelweiss research

Chart 15: A large part of India's logistic inefficiency is due to high inventory costs



Source: NITI Aayog; Edelweiss research

Sector categories: Non-optimal, but practical in Indian context

The transportation sector, with 60-65% share, dominates India's logistics spends given the vast landscape and reliance on expensive road transportation. Of the balance total inventory and carrying cost spends, carrying cost makes up 80-90% with the rest related to warehousing and storage. Compared to globally, share of transportation is higher in India because of the dominance of expensive road transport.

Road and rail mix

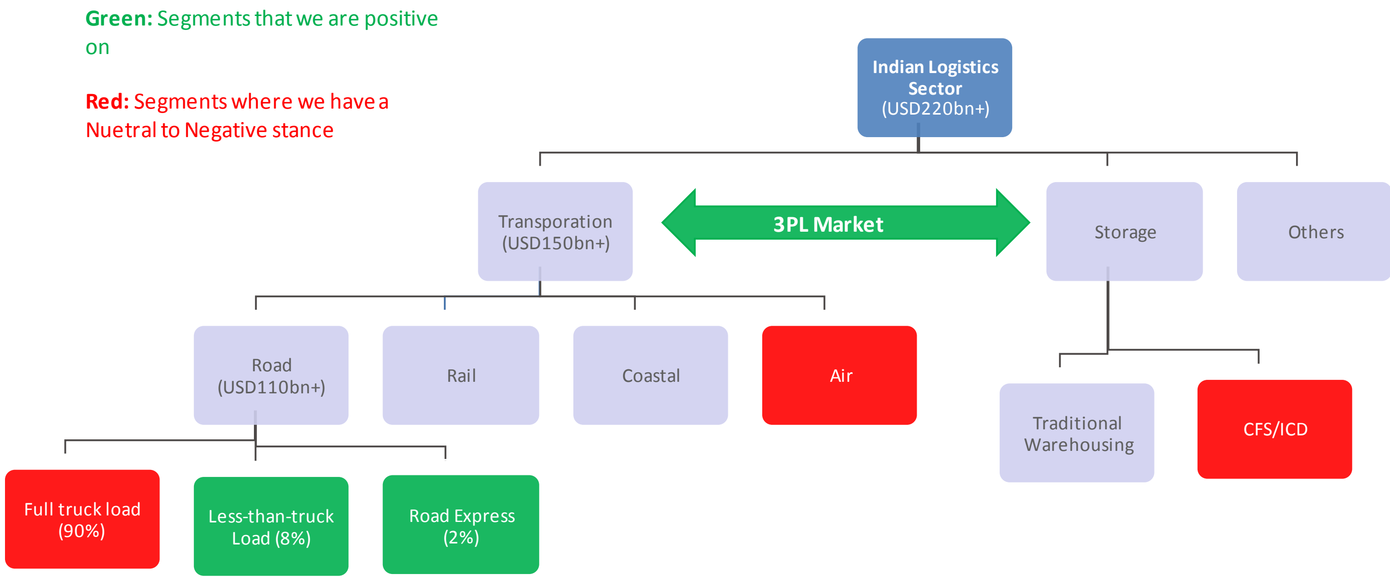
In the transportation sector, road dominates. Road's share in the total transportation modal mix at ~75% (volume based) is much higher than in other countries (US-37%, China-22%). Rail transport is primarily used for transport of bulk commodities (coal contributes ~40% of total freight earnings). While Indian Railways has monopoly in rail transportation, private players are permitted only in container transportation. Further, the road transport sector comprises low barrier, low margin and highly competitive Full Truck Load (FTL) segment. The higher margin and specialised surface express cargo business (USD2bn) is still in a nascent stage.

The road FLT segment is dominated by unorganised players predominantly due to the nature of the business, which involves transport of a full load. As a result, many truck drivers have purchased their own trucks/smaller fleets. However, in contrast, in the surface express segment having significant network is mandatory. As a result, this space is dominated by organised players, with the top 6 accounting for nearly 50% of the market.

Warehousing and inventories

Of the total inventory related cost, carrying cost constitutes ~90%. In the storage /warehousing segment, industrial warehousing is the largest sub-segment in value and space terms. However, cold chain warehousing is expected to be the fastest growing segment. Traditionally, like road FTL, industrial warehousing has also been dominated by unorganised local players. There has been no pan-India player because of land acquisition issues. Also, traditionally the focus has been on pricing and not quality of service. This has been changing recently.

Fig. 8: Logistics sector—Broad segments



Source: Edelweiss research

Table 7: Sub-sector wise growth prospects, cost economics, nature of opportunities and financial metrics

	TRANSPORTATION (USD150b+)							
Broad segment	**Road Transport (USD110bn+)**			**Container Rail (USD17b)**	**Domestic Air Express (USD0.8b)**	**Coastal / Seaways (USD10b)**	**3PL (USD6b) *(End to End solutions)***	**WAREHOUSING / STORAGE *(USD100bn+ that includes mostly high inventory costs)***
Sub-segment	***FTL***	***LTL***	***Express***					
Growth prospects								
FY18-25E CAGR	10%	10%	17%	12%	7%	8-10%	18%	12%
Current size (USD b)	90	10	2	17	0.8	10	5.8	100
2025e size(USD b)	165	18	6.5	37.6	1.3	17	17.3	180
Nature of growth	Cyclical	Semi-cyclical	Structural	Cyclical	Semi-	Cyclical	Structural	Cyclical
Competitive landscape								
Industry structure	Fragmented	Moderate	Organised	Organised	Organised	Organised	Organised	Fragmented
Entry barriers	Low	Mod to High	High	High	High	High	High	Low to Mod
Pricing power	Low	Mod to High	High	Moderate	Moderate	Moderate	High	Low to Mod
Proposition to customer								
Cost to consumer	INR 2-3 per ton km	INR 5-8 per ton km	INR 15-20 per ton km; INR14-16/kg	INR 1-2 per ton km	INR 60-80 per ton km; INR60-70/kg	INR 1 per ton km	NA	INR 15-25 per sq ft
Delivery time (hours)	96 - 120	72-96	< 72	24-72	24-72	96 - 120+	Continuous	NA
Margin & Return profile								
EBITDA margin (%)	2-4%	8-11%	10-12%	16-18%	9-13%	25-35%	5-15%	10-25%
RoCE (%)	10-12%	15-16%	30-45%	13-15%	30-35%	20-22%	25-35%	10-20%

Source: Edelweiss research

Table 8: Presence in business segments by company

	TRANSPORTATION (USD150b+)							
Broad segment	**Road Transport (USD110b+)**			**Container Rail**	**Domestic Air Express (USD0.8b)**	**Coastal / Seaways (USD10b)**	**3PL (USD6b) *(End to End solutions)***	**Warehousing / Storage**
Sub-segment	***FTL***	***LTL***	***Express***					
Mahindra Logistics							✓	
Future Supply Chain							✓	
Container Corporation				✓				
Blue Dart			✓		✓			
VRL Logistics	✓	✓						
Transport Corp of India	✓	✓				✓	✓	
TCI Express			✓		✓			
Gati			✓		✓			
Navkar								✓
Aegis Logistics								✓
All Cargo		✓				✓	✓	✓
Gateway				✓				

Source: Edelweiss research

Recent regulatory reforms are very supportive

Significant regulatory reforms have been implemented over the past two years. Structural reforms such as implementation of GST, introduction of e-way bill, setting up of a separate Department of Logistics, among others, will increase efficiencies in the sector, accruing significant advantage to end-to-end logistics players, in our view. Logistics players can now achieve economies of scale with improving infrastructure facilities and favourable government policy changes to provide cost-effective and integrated solutions.

1) GST: A more efficient taxation system

- **Reduced transportation time:** A truck in India, on an average, runs for 50,000-60,000km p.a. compared to 300,000km in the US. Inter-state border checkpoints, which were responsible for scrutiny of goods and indirect tax compliance, negatively impacted overall production and logistics time, accounting for roughly 60% of a truck's transit time. There has been significant decrease (18-20%) in the turnaround time.
- **Enhanced tax base**: GST implementation is increasing tax compliance of the unorganised sector. Several unorganised players were evading taxes which had generated a pricing gap between organised and unorganised players. GST is helping bridge the gap and is creating a level playing field.
- **Warehousing**: Under the previous tax regime, companies established warehouses in different states to avail tax benefits. With implementation of GST, the number of warehouses has already started to fall. This is resulting in consolidation in the sector with a shift from small state warehouses to large regional ones. This shift will further be assisted with logistics sector being granted infra status as funding on more favourable terms will be available. Warehouse consolidation has also reduced inventory levels by about 30% compared to the pre-GST era (as per Knight Frank), increasing dependence on 3PL providers as industry moves to lower inventory operating models.
- **GST tax rates:** Pre-GST, indirect taxes were up to 26.5%, while GST rates for logistics usually range between 5% and 12%. Fuel, one of the major costs for the

sector, is exempt under GST due to which no input credit is available on taxes paid on it. The input tax credit mechanism will encourage shift of business to the 3PL segment, since the tax paid by intermediaries in the supply chain can be passed as input tax credit. Overall, the industry will benefit due to lower tax burden on account of elimination of double taxation.

2) Introduction of e-way bill

- **Reduced compliance burden:** Previously, logistics providers had to prepare documents for each of the states they passed through. However, with introduction of e-way bill, a single bill suffices even though goods are transported via several states. This has resulted in faster movement of goods since vehicles can be detained only once in a state, unless on account of suspected tax evasion. This speeds up the entire transportation chain and creates additional capacity sans further investment.

- **Advantage organised players:** E-way bills are required for consignments over the value of INR50,000. As of June 2018, the number of e-way bills generated crossed 110mn. Movement of goods without e-way bill has penal consequences, which acts as a deterrent to tax evasion, placing unorganised and organised players on an equal footing. Smaller transporters will have to invest in adequate IT infrastructure entailing additional costs. This lends competitive advantage to established 3PL players and their partners, who already have such systems in place.

3) Grant of infrastructure status

With a focus on reducing the overall logistics cost as a % of goods (up to 14%) to make goods more competitive, the logistics sector was granted infrastructure status in November 2017 and includes, multi-modal logistics park comprising ICD, cold chain facilities and warehousing facilities with minimum investment and area size.

The move accrues various benefits to the sector such as competitive lending rates, longer maturity loans, enhanced limits, access to ECBs and funds from specialised lenders. While the move will contribute to the government's 'Make in India' initiative and accrue benefits to other industries dependent on logistics, we estimate the 3PL segment to gain on account of lower funding costs and lower costs from service partners.

4) Establishment of Logistics Division under Department of Commerce

The Department of Commerce established a Logistics Division in July 2017, currently headed by Mr. Binoy Kumar (Special Secretary, Logistics), focusing on 'Integrated development of the Logistics sector'. The department aims to cut logistics cost to about 10% of GDP by 2022. In August 2018, a committee of secretaries approved the proof of concept for setting up of a National Logistics Portal (NLP). NLP will be implemented in three stages: 1) development of e-marketplace; 2) single window clearance for approvals from over 80 authorities; and 3) integration of financial services.

5) Investments and large scale plans

The government is investing heavily to improve the overall sector such as the Sagarmala Project, UDAN scheme and Bharatmala Pariyojna. While these projects will take a long time to be implemented, it will eventually create a more robust and integrated logistic environment for India.

3PL: An USD17bn opportunity by FY25

3PL is the most exciting space within India's logistics sector at this juncture. Clients' mindset is changing rapidly with rising inclination to outsource entire supply chain operations. Regulatory reforms such as GST are further incentivising this shift. As a result, we see India's 3PL market nearly tripling to USD17bn by FY25E with 17-18% annual growth. We also believe that there are high entry barriers in this business as partnering with asset owners is challenging. We like Mahindra Logistics in this space as it ticks all the boxes needed for a successful and scalable business model.

3PL: Evolution in India and how it works

Third Party Logistics (3PL) as a concept has been a fairly recent phenomenon (past decade) in India compared to the relatively developed market in the West (over the past three decades). However, the drivers have been largely similar to that of developed nations, where a need for customised supply chain solutions and an increased understanding by clients of this need has led to the evolution of the 3PL market. Before we dig deeper into the factors that will drive this market and create winning business models, we start with how the 3PL sector works and its general evolution in India so far.

From back-end to boardroom

The metamorphosis of the Indian supply chain industry has been remarkable over the past couple of decades. Logistics has evolved from being a back-end function to a critical strategic boardroom subject, which now has the power to provide a company the much needed competitive advantage.

1PL to 2PL, then to 3PL

- **1PL:** Earlier, the manufacturer owned the fleet and warehouse and its in-house team managed the end-to-end supply chain for its products, starting from sourcing raw material to final distribution. In this 1PL set up, the main drawback was the capital intensive nature of the business model, which significantly limited scalability of companies.
- **2PL:** With time, basic outsourcing to logistics vendors started gaining ground as manufacturers started partnering and leasing transportation and warehousing assets. However, over time, customers have realised that maintaining and managing direct relationships with a large number of asset providers is cumbersome as well as costly. This is also because of fragmentation of India's logistics sector, where majority of the vendors have only regional presence, making it increasingly difficult for client companies which are pan-India or expanding to become pan-India. Furthermore, customisation was turning out to be a major issue as vendors would follow a one-size-fit-all approach and have a set variety of vehicles and godowns.
- **3PL:** The 3PL industry owes its genesis to this need for customisation and scalability. Companies increasingly started outsourcing their end-to-end logistics requirements to 3PL service providers, who took care of the total supply chain. In a way, an asset light 3PL is an organised middleman between the client and vehicle/warehouse owners, wherein they manage the relationship at both the ends and are accountable for quality of logistics solutions. The most important benefit that 3PL brought was customised solutions to client companies and overall improvement in cost efficiency. The 3PL business model or services

provided by a 3PL service provider covers the entire life cycle of the product, right from raw material sourcing to in-bound logistics, to sorting, assembling & packaging, to final shipment/transportation.

- **4PL – 4th Party Logistics (the company consults an outside party to strategise and chalk out the best supply chain solution):** The 4PL player, in the Indian context, is more of a consultant, who helps a company to better plan its logistics function and does not execute the function for the company.

Fig. 9: 3PL player manages a wide variety of services

Source: Edelweiss research

3PL market can almost triple to USD17bn by FY25E

Anchored by our research, we peg India's 3PL market at ~USD6bn. Over the past five years, as the segment picked up in India, it clocked 21% CAGR to USD6bn. We see a convergence of need driven factors that can potentially take this market to nearly USD17bn by FY25E, nearly 3x the current market size. Our estimates are based on bottom-up vertical-wise growth assumptions, which imply ~17% CAGR over FY18-25.

Furthermore, we estimate that while about two-third of the 3PL sector is transportation, the balance is warehousing related. Improving connectivity to rural areas as well as last mile connectivity enhancement should lead to the transportation component growing slightly faster than warehousing, in our view. As a result, we expect transportation, within 3PL, to clock 17-18% CAGR over the next five-seven years. However, we point out to look at this opportunity collectively of transportation and warehousing as this opportunity is more solutions based.

Chart 16: 3PL market can touch USD17bn by FY25E

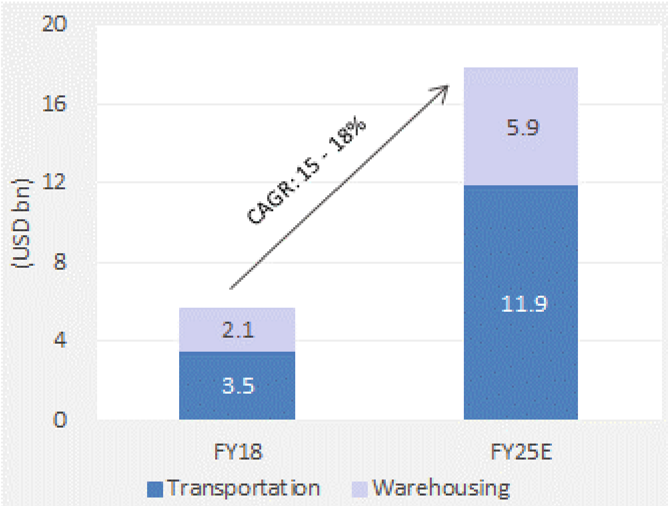
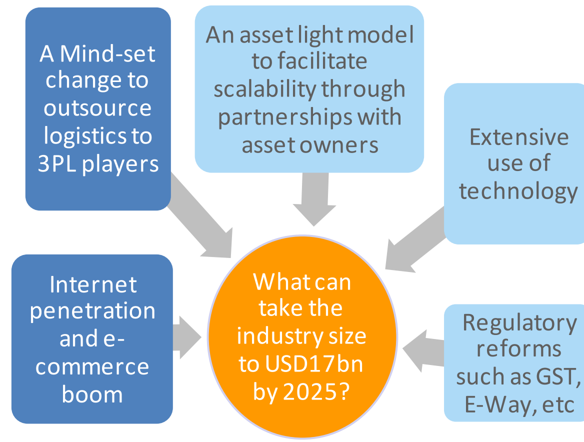


Fig. 10: 3PL—Key demand drivers & enablers



Source: Edelweiss research

Demand drivers and enablers

A thought-process shift from 'non-core to core'

The evolution of 3PL market in India is currently benefitting from a strategic transformation as Indian businesses defocus from non-core and sharpen focus on core activity. It is indeed a change in the thought process as previously a manufacturing firm used to perform all functions itself, right from sourcing raw material to last mile delivery of the final product .

Now, thanks to globalisation and cut throat competition, with time sensitive deliveries and leaner inventories, outsourcing of major functions like logistics has become a norm. The customisation and end-to-end services provided by 3PL players are aiding this mind-set shift, in our view. From a client's perspective, our research and discussions with industry participants indicate that the move to 3PL is driven by two key factors:

- **Cost savings:** A large number of clients still depend on in house logistics departments or partner with a large number of vendors for transportation and warehousing (2PL). This creates inefficiency not only from a cost outflow point of view, but also from a management bandwidth perspective. As a result, 3PL is proving to be a critical cost saving lever.
- **Competitive advantage:** Several clients are opting for 3PL service also because it lends competitive advantages in terms of geographical reach and low turnaround time for inventories.

Global context: India has ample room for rapid 3PL adoption

- Globally, 3PL providers have been present for the past three decades and have largely proven to be successful value addition for clients. Especially for a multinational corporation to grow against the backdrop of an expanding international trade, a 3PL player provides reliable input quality suppliers at low cost on one hand and extensive distribution network, on the other. Our research indicates that the organised 3PL market globally is about USD800bn or roughly 10% of the global logistic market of USD8tn. In India, organised 3PL market is roughly 3% of the overall logistic market, indicating ample room for 3PL adoption.

- Within the global 3PL market, Asia Pacific forms the largest chunk with 38%; Europe (21%) and North America (25%) have also well-established 3PL markets. Europe, which historically has seen ample cross-border traffic and trade, has been one of the oldest nations to have a widespread presence of 3PL service providers. Burgeoning consumer disposal incomes in developed economies and interest in asset-light models have boosted the importance of 3PL players. On the other hand, Japan has been relatively slower in warming up to the concept of outsourcing end-to-end logistics to 3PL players, over and above basic transportation. Nevertheless, with well-established players like Nippon Express, efforts have been aggressive on the 3PL front. Worldwide, DGL, Kuehne + Nagel International AG, DHL, UPS and FedEx are among the top players in the 3PL industry.

Larger client verticals are steady growth avenues

Key consumer verticals for the 3PL market are automotive, auto components, e-commerce and consumers. Among these, while we expect auto and auto components to be steady growth contributors with 13-15% CAGR, consumer/consumer durables and e-commerce have the potential to post 20-25% CAGR over the next five-seven years.

Table 9: Our growth outlook on key 3PL verticals

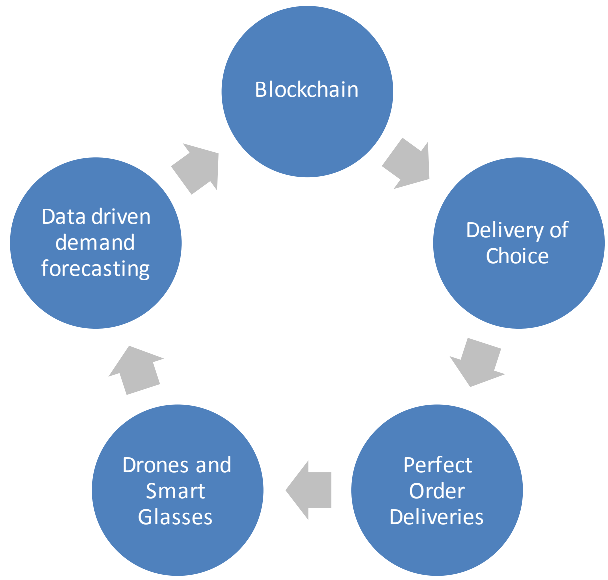
Customer vertical	Share in 3PL market (%)	Logistic costs as a % of vertical revenue (%)	Expected growth in 3PL costs FY18-25E CAGR (Edelweiss Est)	Our view on 3PL growth
Automotive components	26%	5-6%	14-15%	Auto-components industry is highly fragmented and manufacturing locations tend to be closer to OEM manufacturing locations. The need for 3PL arises as most OEMs now rely on Just-in-time approach and avoid stock of auto-components. Hence, the JIT delivery deadline become extremely critical. Auto-comps industry is expected to clock ~10% CAGR, but since 3PL penetration is around 60%, there is scope for 3PL growth in this vertical to be around 14-15%.
Cars and UVs	17%	4-5%	18-20%	Transportation is dominant is this vertical's 3PL activities (nearly 80%) with inbound and outbound logistics having similar share. In bound logistics has large scope to grow for 3PL as still under penetrated
Two and three wheelers	13%	4-5%	13-15%	Logistics costs typically account for 5-6% of the industry's turnover and 3PL outsourcing is at a medium level as per industry sources. We expect moderate 3PL growth of 13-15% CAGR in this vertical
Consumer durables and FMCG	5%	5-7%	24-26%	These verticals are expected to grow at 11-13%, however these are dominated by C&F which manage the regional/local warehouses. As a result, 3PL outsourcing is low and hence has high potential. GST is expected to increase share of 3PL players, due to warehouse consolidation and need for organized service providers in transportation. Hence, we expect the 3PL market to grow at 24-26% CAGR
E-commerce	16%	9-10%	28-30%	E-com in India is expected to clock 25%+ CAGR. Major e-retailers prefer to set up warehouses close to demand centers. However, last mile delivery accounts for a considerable share in the total logistics expense and hence transportation cost comprises approximately 65-70% of an e-retailers supply chain management cost. The scope for growth in 3PL is high as scaling up in-house logistics service is challenging and time-consuming, given that infrastructure in India is still developing. Over the past few years, 3PL service providers have developed solutions to cater specifically to the e-retail industry in order to achieve shorter delivery times
Organized retail	8%	5-6%	25-30%	While outsourcing of logistics functions is a standard practice, the market share of 3PL services in the industry is relatively lower. Typically, the outbound logistics costs are higher than in-bound logistics costs, considering last mile delivery of final products to various stores and outlets and high replenishment cycles as compared to other sectors. For the same reason, transportation costs are typically higher than warehousing costs for the sector. there is significant scope for increased 3PL usage within the sector as organized retail service providers are increasingly demanding better supply chain management and exceptional logistics practices to compete effectively. The potential for value-added services is also high as activities such as packaging, labeling, quality control, among others, are increasingly outsourced in order to focus on core business activities of procurement and sales.

Source: Edelweiss research

Technology, undoubtedly, will be a game changer

Like many other sectors, the tech revolution is rapidly taking over the logistics sector in away. We have already discussed earlier how logistics is becoming the backbone of several client sectors and technology seems to be emerging as the biggest enabler. Technologies such Robotics, Artificial Intelligence, Blockchain, Machine algorithms, drones, etc., which seemed theoretical discussions five years ago, are now being actually implemented as game changing business models. The entire effort and transformation is targeting improvement in customer's happiness quotient and tech has a big role to play in this.

Fig. 11: Technology is seeing rapid adoption in logistics



Source: Edelweiss research

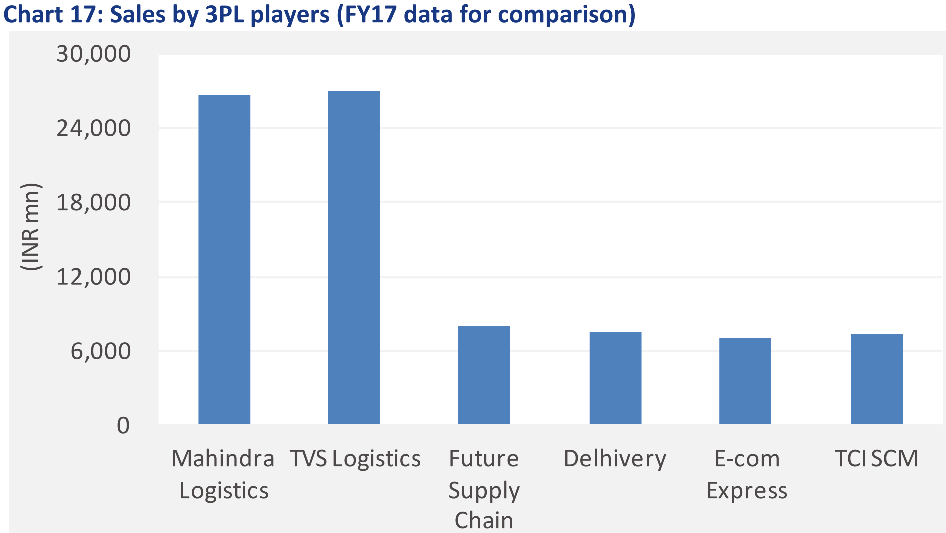
3PL competitive landscape

As discussed earlier, outsourcing of logistics in India is still a relatively new and untapped market, but gaining momentum at a rapid pace. The 3PL market is fragmented with a few established players and a plethora of regional players and tech-savvy startups. The competitive landscape can be broadly categorised into two buckets. The first bucket includes 3PL players which are either captive logistics arms of large business houses and other non-captive 3PL players. The second bucket includes largely 3PL players which are solely focussed on the e-commerce market.

Fig. 12: 3PL market—Competitive landscape

Source: Edelweiss research

Chart 17: Sales by 3PL players (FY17 data for comparison)



Source: Edelweiss research

Table 10: Various types of players within the Indian 3PL sector

Anchor based 3PLs	Non-anchor	E-Com
Mahindra Logistics, the in-house logistics arm, was carved out of Mahindra & Mahindra as a separate entity, to cater to the logistics requirements of the Mahindra Group, besides providing transportation services for corporate employees. Mahindra Logistics provides Supply Chain solutions to M&M, and other non M&M clients, predominantly in the auto sector.	Transport Corporation of India is one of the oldest players in the logistics space, with presence in freight handling, supply chain solutions and express delivery. TCI has 3PL division (INR9bn sales) and what differentiates its model is that it follows a blended hybrid model, wherein some fleet is owned by the company and remaining is leased from truckers and warehouse owners.	Delhivery is a startup, which started as a 3PL service provider, especially providing last mile delivery services.Delhivery as on date processes close to 10 million orders a month with over 1 mn sqft of infrastructure.
Future Supply Chain: With the diversified Future Group as its anchor client, Future Supply Chain provides contract logistics solutions, cold chain solutions (both warehousing and transportation), as well as express delivery function to companies across all sectors, with large market share in ecommerce, food and fmcg and fashion industry.	Among others, there e is K D Logistics, that provides warehousing and transportation services in northern, western and southern India. Jayem Warehousing, is another 3PL player which has been a pioneer in warehousing industry. Jayem also provides a one stop shop solution for the end to end logistics requirements of clients.	With more than 60% of its deliveries in Tier II and beyond cities, Ecom Express has grown phenomenally in past five years, with huge expansion in its delivery network. Similar to Delhivery, its expertise also lies in providing end to end solutions to Ecommerce Companies.
TVS Logistics Service Limited, formed in 2004, is the flagship company of the TVS group, providing supply chain solutions in India and across the world in around 14 countries. It provides a full range of end to end supply chain activities, with presence across most of the industries.		Others: Other such companies like DotZot (A DTDC Company), RoadRunnr, QikPod, and Gojavas are also operating in the same segment, making it a highly competitive segment.

Source: Edelweiss research

Right to win: What it takes to win in India's 3PL market

Continuing with our proprietary 'Right to Win' framework introduced in our earlier thematic report on the Business Services sector (link), we have created a similar framework to identify winners in the 3P logistics sector. Our right-to-win framework for 3PL market has two aspects: i) growth strategies that can succeed in outpacing peers; and ii) enablers or attributes needed to execute these growth strategies effectively.

We believe, to win in this sector, two key growth strategies will be targeting large high growth verticals and consistently developing higher complexity solutions. To execute these, we believe the ability to customise solutions, end-to-end solutions, established business base or anchor clients and a wide spread India network will be key enablers. ***In our view, Mahindra Logistics and TCI's 3PL segment rank highly on these parameters.***

Growth strategies (Need to do)

- **Targeting large and high growth verticals:** Within the 3PL sector's consumer pie, we find a rare combination of some of the largest verticals such as FMCG, auto, e-commerce, organised retail, etc., also being some of the highest growth verticals. The large vertical sizes mean that entry barriers for smaller 3PL players are high, in our view. We believe, hunting large scale contracts from these big clients will be a key growth strategy for outpacing industry peers.
- **Higher complexity solutions:** Our discussions with industry participants indicate that outpacing peers will depend significantly on performing higher complexity logistics tasks, which are also essentially higher margin contracts. Customisation of offerings and complexity, especially in warehousing contracts, will be key for this. This is also more applicable in warehousing where increasingly the packaging or sampling part is being outsourced rapidly.

Enablers (Need to have)

- **Capability or proven ability to provide customised and end-to-end solutions:** The core demand driver of the 3PL sector is the customisation offering that a logistic company can provide to a client. Customisation coupled with an ability to provide an end-to-end solution is a critical success enabler, in our view.
- **Established business base or anchor clients:** While it is easy to misunderstand that the entry barriers are low in 3PL given the asset light business model, we believe it is quite the opposite. In our view, an established business or a large anchor client becomes a huge critical factor and a 'must-have' to firstly approach any SME or large clients and secondly, for scaling up the business in the later phase.
- **Ability to build an asset light model to scale up:** Building an asset light model needs significant partnering skill set as 3PL depends on partnering with transporters and warehouse owners to scale up the business. In the absence of anchor clients, initially non-captive 3PL companies may have to rely on owning critical assets, but we believe that the scale up is likely to be much more successful using an asset light model.
- **Technology a core driver:** Increasingly, 3PL platforms are using technology as a differentiating factor and an important enabler for operations. Not surprisingly, this has attracted many tech startups to enter 3PL. We see an evolving technology platform as a huge 'must-have' in the coming years.

Express Sector: Niche, Structural And High Growth

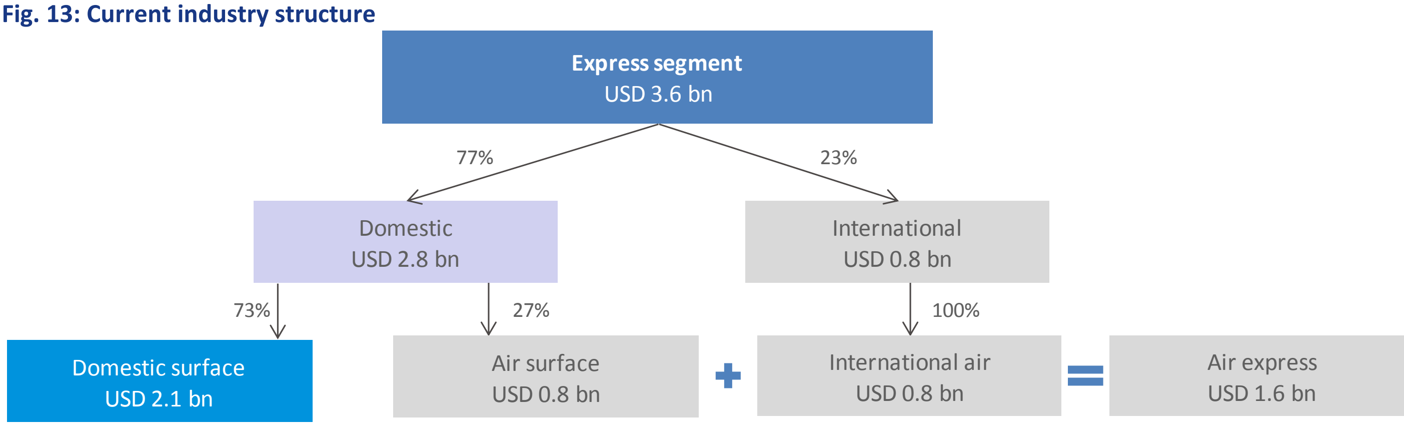
India's express market has seen a transformation shift over the past six-seven years. A large share of the market (18-19%) has moved from air express to road express. Key factors driving this are reducing transit time on road, expanding road infrastructure and use of technology. Currently, India's road express market accounts for mere 2% of the overall road logistics market and ~55% of India's overall express market (USD3.7bn). We expect the surface express market to clock 17-18% CAGR to ~USD6bn by FY25E.

Overall express market: ~USD9bn potential by FY25E

Our estimate pegs India's current express market at USD3.7bn (includes international air express). In this context, the express sector refers to largely shipment of parcels up to 35kg. This sector comprises the surface express market (road express) and air express, where surface is the dominant segment (~USD2bn).

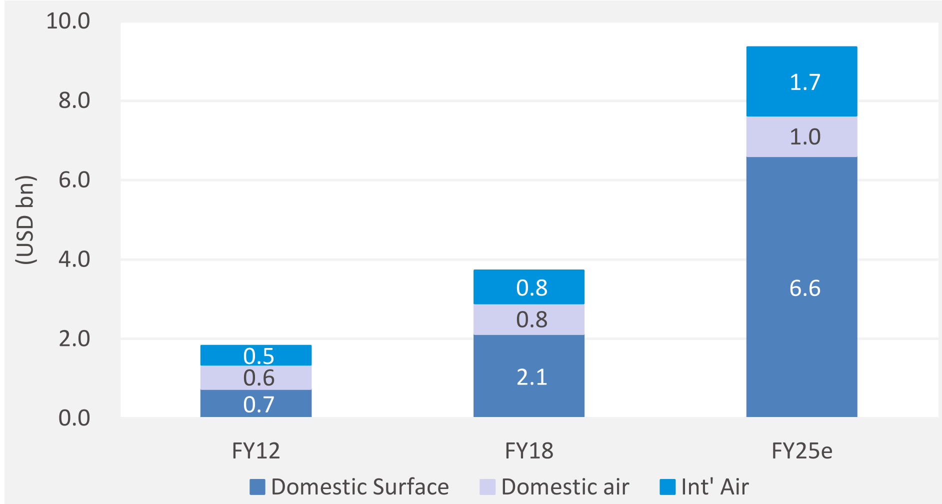
Overall, we expect the domestic express market (USD2.7bn) to post 15-16% CAGR over the next five-seven years to reach USD9bn by FY25E. In our view, it is a less understood and niche opportunity as of now, but will be difficult to ignore as the size crosses USD5bn by FY21-22E. Some key drivers of this structural growth are rapid rise of e-commerce, high demand from SME sector, supportive regulatory reforms and high growth in surface express segment (discussed in detail in the next section).

Fig. 13: Current industry structure



Source: Edelweiss research

Chart 18: Surface express likely to outpace air express significantly



Source: Edelweiss research

Domestic surface express: The story to play

The domestic surface express segment (~USD2bn) dominates India's express market with three-fourth share and it has wrested almost 19% share from air express since FY12, according to our estimate. Our research and estimates indicate that the domestic surface express segment has grown by 20-21% p.a. since the beginning of the decade led by much lower pricing (compared to air express) and improved road infrastructure. In our view, there are strong drivers in place to enable this segment to more than triple to USD6bn plus by FY25E. We estimate the domestic surface express market to post 17-18% CAGR over the next five-seven years.

While the industry is highly fragmented and has presence of over 1,000 players, large scale players (~20) have ~75-80% market share. With expanding industrial activity, the industry has moved from express parcels comprising primarily documents to heavier load sizes. Active tracking, certain delivery times, shift to more efficient production models such as JIT and outsourcing non-core functions have enabled service providers to fulfil demand and grow at such a rapid pace.

Structural shift from air to surface will sustain

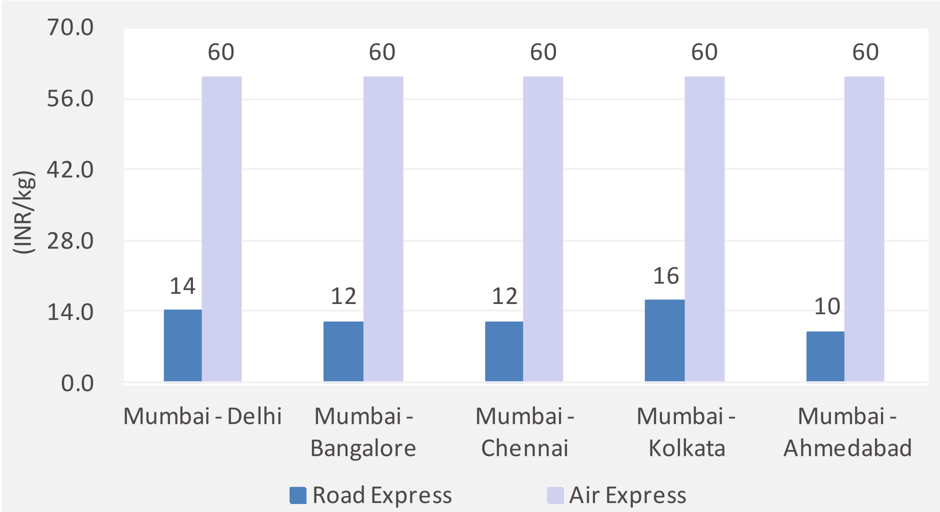
While we discuss the broader demand drivers of the overall express industry in the next section, below we highlight the three trends that will enable the surface express segment to gain share from the air express market over the next five-seven years.

- **Pricing disparity between air and road has widened:** Air freight charges are up to 5-6x higher than road surface express. With increased airport charges and aviation fuel costs, the cost of transporting goods via air is structurally getting more expensive. In our view, though cost of operations will increase for surface express as well due to recent higher fuel expenses, the existing disparity between air and surface pricing will hurt air express more.

- Also, we note that only a few express players own their cargo aircrafts and others rely on belly cargo of passenger flights. Consequently, we expect the air express market to grow at a slower than industry pace of ~5% annually even as surface express clocks 17-

18% growth p.a. We see a clear shift of customers from air to surface due to this huge pricing disparity and reducing delivery times in surface express.

Chart 19: Comparison of express charges across major routes

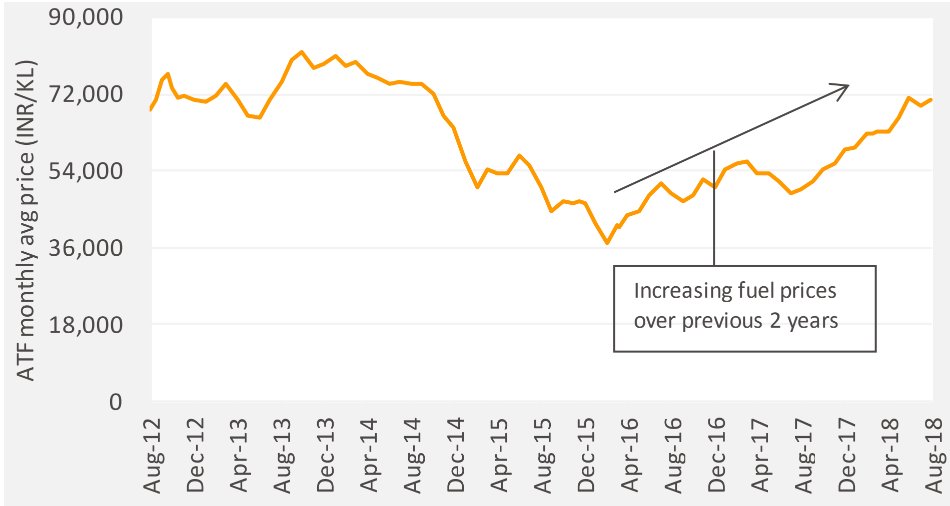


Source: TCI Express, Blue Dart; Edelweiss estimates

- **Reduced surface delivery times:** Positive reforms and improved road connectivity have reduced overall transportation time. Further, facilities such as real-time tracking, logistics management apps, etc., have already led to a significant reduction in surface transit time. These falling times and cost benefits to customers, we believe will boost shift from air express segment to surface express.

- **Trend shifting from documents to heavier loads:** We see another trend within the express market—shift from documents to heavier loads. Traditionally, the express delivery segment was used to transport documents and high value but low weight parcels. Express services are now used for not just sending across documents (typically under 500gms) such as government and bank related documents, but also non-document parcels such as machine spares, e-commerce packages, equipments, etc. The share of documents of the domestic express segment in terms of value is now less than 20% and it is further reducing. Due to increased penetration of internet, demand for delivery of time sensitive documents has slowed down.

Chart 20: Rising aviation fuel price has rendered air express uncompetitive



Source: Edelweiss research

Chart 21: Consignments over 2kg constitute ~50%

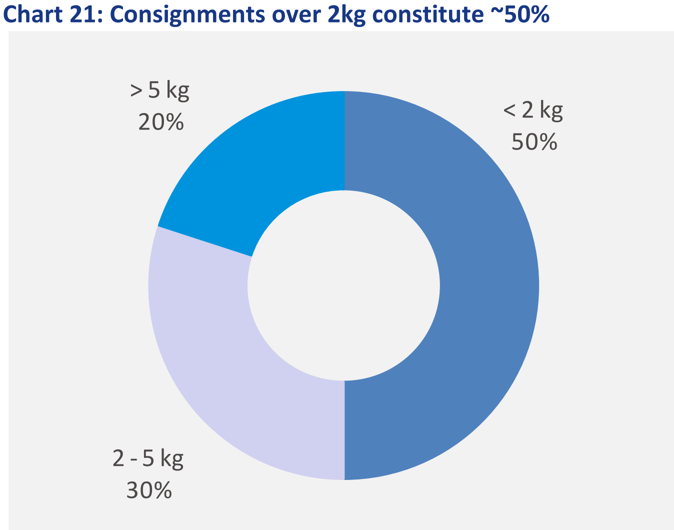
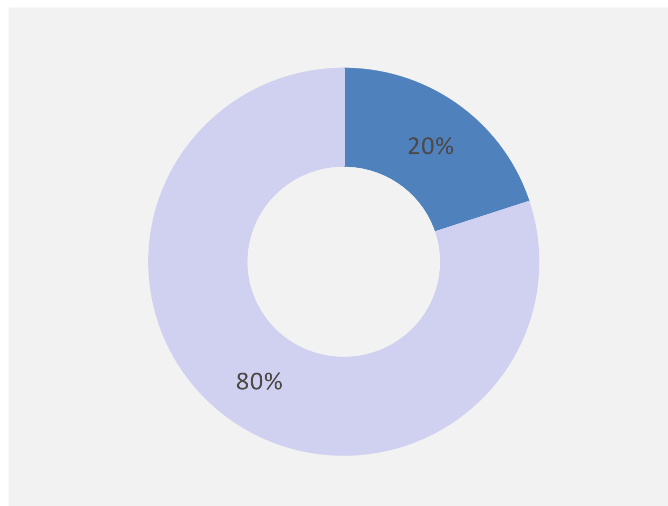


Chart 22: Non-documents account for over 80%



Source: Edelweiss research

Key drivers: Emerging trends are structural in nature

India's express industry is undergoing transformation, where some of the emerging trends should continue to drive demand over the next five years, in our view. We see e-commerce, manufacturing and MSMEs as key demand drivers, while technology and logistical infrastructure will be key enablers for the market's growth.

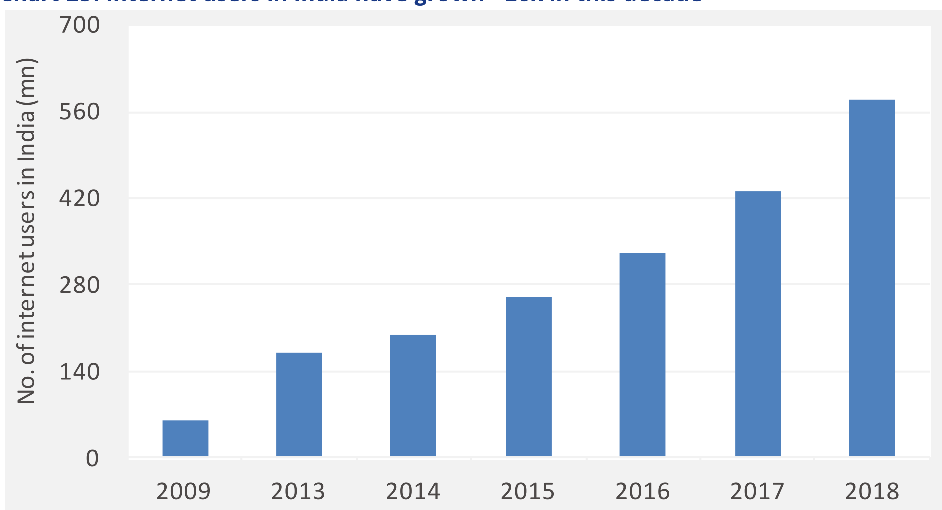
The rise and rise of e-commerce

- **Internet penetration:** In India, e-commerce has engineered a revolution not just in the shopping behaviour, but also in the logistics sector. The number of internet users in India has posted 27% CAGR over the past five years as internet penetration has improved from 11% in FY12 to 30% plus currently. As per industry estimates, internet is expected to reach 50% in the next five years. This is reflected in the growth of the e-retail industry in India from less than USD2bn in FY12 to USD10-12bn in FY17.

- **Only the fittest have survived:** This has meant that the traditional model where documents comprised nearly 70% volume of the express industry till five years ago has been disrupted. However, this has been a positive disruption as the sector size has benefited with increased volumes. This disruption meant that while traditional B2B players were not equipped for the last mile delivery challenges, traditional B2C players who were mostly handling home shipments of documents weighing on an average less than 500grms were not equipped to handle the e-commerce volume. As a result, the number of successful B2B express players has shrunk over the past five years, giving advantage to successful models such as TCI Express and Safe Express.

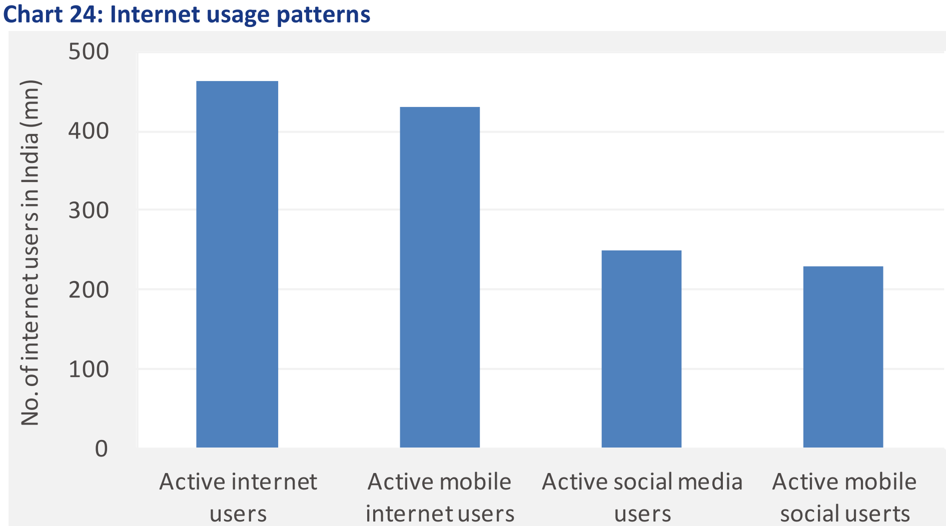
- **New demand centres:** Additionally, demand centers which were previously confined to select commercial centers and industrial geographies now extend to the entire middle class population—metros, tier 1 & 2 cities and slowly extending to tier 3 & 4 towns as well. Hence, new players have stepped in to cater to the demand of volumes by bringing solutions around reach, speed, reliability, agility and customer satisfaction.

Chart 23: Internet users in India have grown ~10x in this decade



Source: BCG, Edelweiss research

Chart 24: Internet usage patterns



Source: Statista, Edelweiss research

Burgeoning manufacturing, MSMEs to fuel express industry

Historically, manufacturing growth has been the base driver of the B2B express industry in India. Manufacturing growth has driven growth of Micro, Small and Medium Enterprises (MSMEs) in India, a segment which has grown much faster than India's real GDP. In fact, MSMEs are key consumers of the express industry and have registered double digit growth over the past seven-eight years.

There has been a direct correlation between the growth of MSMEs and the express industry—express industry has grown at more than 2x real GDP over the past seven-eight years. In terms of manufacturing growth, there is a push from the government to improve the contribution of manufacturing to GDP from the current 17% to 25% by 2020. This implies at least 15-16% CAGR for the manufacturing sector, providing an impetus to the express industry.

Supportive regulatory changes

Despite the initial stumbling blocks, GST implementation in 2017 and introduction of e-way bill in 2018 should gradually prove to be strong enablers for enhancing efficiency in the transportation and warehousing sectors. In addition, road infrastructure has picked up significantly in the past seven-eight years, which has helped the expansion of India's road network. We believe, this supporting regulatory and infrastructure strengthens the case of strong express industry growth.

Furthermore, the government's seriousness can be gauged from the fact that a Department of Logistics has been recently set up within the Ministry of Commerce with an objective to weed out inefficiencies from India's logistics sector on a fast track basis. The logistics sector was also given infrastructure status recently.

Rapid involvement of technology

Globally, the express industry has invested heavily in technology, a critical factor enhancing efficiency in the sector. Over the past few years, India's express sector seems to have identified technology as a key enabler and we believe this will be an important differentiating factor for the sector's competitiveness. While tracking of vehicles or goods has become a norm, more sophisticated technology is being introduced which reduces inventory management cost and provides more customised solutions to clients. Not surprisingly, this has also led to several tech startups venturing into the logistics sector in recent years.

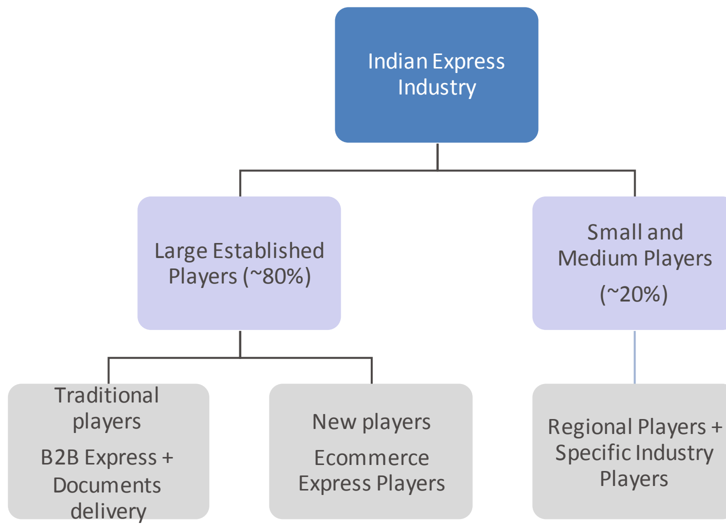
Express: Competitive landscape

India's express industry has evolved significantly over the past two decades. The need for time-bound deliveries with visibility and quality service has defined the industry over the years. The industry has seen vertical as well as horizontal expansion. The express industry, which has been traditionally dominated by Speed Post, has off late seen the emergence of a lot of new technology-enabled players who are banking on the e-commerce explosion in India and are looking to profit from the changing industry dynamics. There is also presence of many regional players in the time-bound delivery set up in India.

Industry structure

India's express industry is overall moderately fragmented. It is dominated by about 20 established express players, which account for ~80% of the market. These 20 players are a mix of traditional established players with pan-India presence, operating especially in the traditional B2B space and document shipment, as well as new express players, borne out of the need due to the internet explosion and evolution of the e-commerce industry in India. The balance 20% of the express industry is characterised by medium and small players who essentially are either regional players or service certain sectors or industries, basis their expertise.

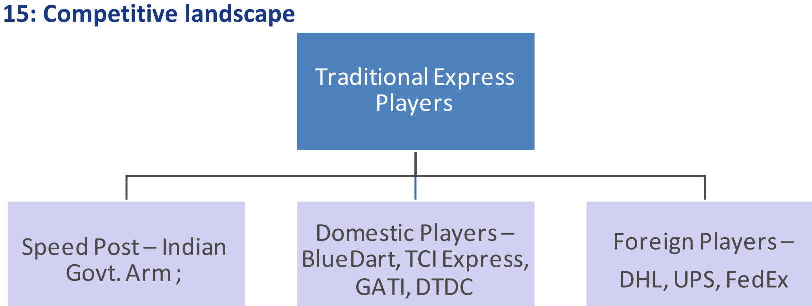
Fig. 14: Competitive landscape



Source: Edelweiss research

Along with Speed Post, traditional players include domestic companies like Blue Dart, Safe Express and TCI Express on one hand, as well as Indian counterparts of foreign established players like FedEX, UPS and DHL. These are companies with well established presence in India and have been catering to industries in India for years now. The new emerging lot includes in-house captive arms of e-commerce players who cater specifically to e-tailers and also form a good chunk of the express industry in India with players like Delhivery and Ecomm Express expanding at a rapid pace.

Fig. 15: Competitive landscape



Source: Edelweiss research

Key players

Speed Post, the express arm of Government of India's India Post, provides domestic and international shipment facilities for parcels weighing up to 35kg. It has the widest pin code coverage in India and is undoubtedly the market leader in the domestic express industry.

Keeping in tandem with industry classification of surface express and air express, it is important to identify players that have expertise in respective sections.

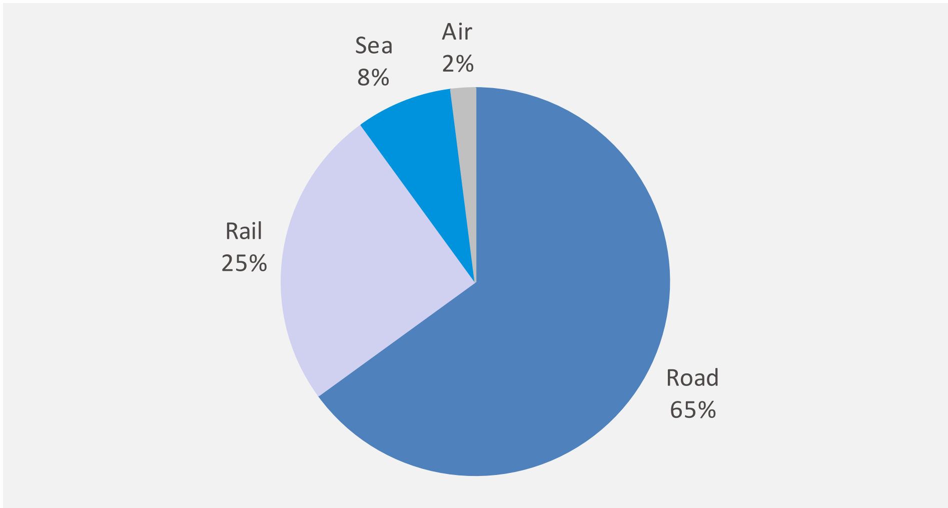
- **Blue Dart Express,** a leader in air express cargo with a huge international presence, operates with a different business model vis-à-vis its competitors. Following a highly capital intensive business model, Blue Dart owns six aircrafts which it uses for to transport air cargo. It manages an extensive network of partners for surface express for last-mile delivery. A group company of DHL, Blue Dart has been a household name for time sensitive deliveries for years now.
- **TCI Express,** carved out from its parent company (TCI – Transport Corporation of India), is one of the most established pan-India players in the surface express business. While it also has presence in the air express business, its major focus is on surface express, specifically B2B business. 50% of its surface express revenue comes from B2B deliveries for small and medium enterprises. Leveraging the relationship that TCI has nurtured over the past two decades, TCI Express has grown phenomenally over the past few years. It follows a blended model, wherein it owns some trucks, while it leases the remaining to cater to its customers.
- **GATI,** like TCI Express, also operates in the surface express industry largely providing time sensitive delivery services. It also caters to the e-commerce industry and has been growing that business banking on the booming e-commerce industry in India.
- **DHL, UPS and FedEx** are all global leaders in the express industry, who have been expanding presence in emerging countries. They have well established presence in India, providing pick up and delivery services at competitive rates, with latest technology applications in their service offerings.
- **Captive logistics arm of Amazon India**, ATS, has been expanding its presence in India exponentially. It has been expanding its warehousing capacity with increased presence in 13 states in the form of fulfilment centres (now 67), run by delivery service partners, in order to manage peak loads and higher demands from tier II and III cities, thus providing timely deliveries to customers. Similarly, **eKart** has been providing express delivery services for its parent company Flipkart in India. ekart has helped reduce cost of delivery for Flipkart through tie-ups to cater to external clients. It has expanded its pan-India presence, catering to 7,000 plus pin codes.

Transportation: Road to Remain Dominant

Led by years of under-investment, rail has suffered as a mode of freight transportation, even as road networks have grown exponentially with high investments over the years. Road (65% of transportation) is likely to remain the dominant mode despite the potential commissioning of Dedicated Freight Corridors in 2021, in our view. Within road, we are positive on LTL and express business models, while FTL is likely to continue to suffer due to fragmented ownership and low pricing power. In rail, Concor should benefit from DFC commissioning, which should boost volumes, but more importantly efficient and profitability.

We estimate India's freight transportation at around USD150bn plus. Driven by the underlying economic growth, high infrastructure investments (especially in road transport) and favourable government initiatives, we expect the transportation sector to grow at 9-10% annually over FY18-25. As seen from the chart below, road transportation is the dominant category at ~USD100bn and we expect this to remain the main segment.

Chart 25: Road is the largest component of USD150bn freight transportation industry



Source: Edelweiss research

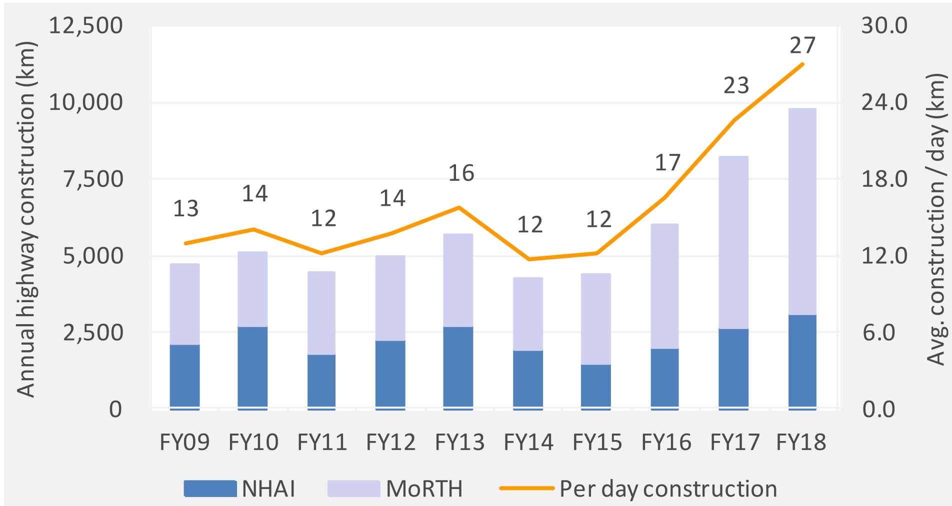
Transportation accounts for nearly ~2% of total system inefficiency

India's freight traffic comprises bulk commodities and over 75% (in tonne-kilometres or TKMs) is transported over distances of more than 400km, which can be more economically served by rail and waterways. However, roads remain the dominant mode of transportation in India today due to under-investment in railways.

On the other hand, the road sector has witnessed a surge in investments (public and private) as the government launched the ambitious National Highways Development Project (NHDP). As a result, the share of traffic hauled on railways has plummeted since independence. In fact, India's rail /non-road share is significantly lower than China's and US'. India's current rail share of 26% is much lower than the suggested optimal rail mix of 88% (As per RITES Total Transport System Study).

As a result of road's dominance, the average lead distance of rail and road is nearly similar. Road lead distance in India at 630km is much higher than the ideal suggested range of 0-400Km leading to significant inefficiencies and higher costs. As a result, inefficient usage combined with the high cost of road leads to much higher transportation spends in India.

Chart 26: Highway construction



Source: Edelweiss research

Road logistics: Largely challenging; niche areas exciting

FTL refers to the end user providing load sufficient to fill the entire truck, whereas in Less-than-Truck-Load (LTL) the end user only takes up a part of the load of the truck with multiple end-users comprising full truck load cargo. Express is similar to LTL, but in addition to part load services it provides a time-bound delivery guarantee which needs investment in multiple hubs across the operating region

Road transport in India is dominated by the Full-Truck-Load (FTL) segment, which makes up ~88% of the road industry size, due to low entry barriers. While the FTL business is commoditised, the road express business (2%) requires setting up of a strong network to get adequate tonnage and be profitable. As a result, RoCE of road express at 40-45% is much higher than 10-11% average RoCE in the FTL business.

Less than truck load (LTL) is about 10% of the road transportation sector and it is more profitable than FTL. India's USD100bn road logistics market has clocked 9-10% CAGR over the past decade. We believe, increased economic activity, current & future mix of rail and roads in surface transport, supported by positive regulatory changes and infrastructure investments will lead to the sector posting CAGR of ~10% to ~USD190bn by FY25E.

A **key trend** that we are observing in the past 12-18 months, is that post GST, there has been a beginning of a shift from FTL to LTL or Express business. This is mainly due to the customers demanding quicker and smaller truck loads directly to distributors rather than multiple warehouses that are situated in every state.

Post GST, which has reduced the need of warehouses in every state, customers are demanding transporters for smaller truckloads and quicker turnarounds

This has led to pure FTL business starting to get converted into LTL and even express business

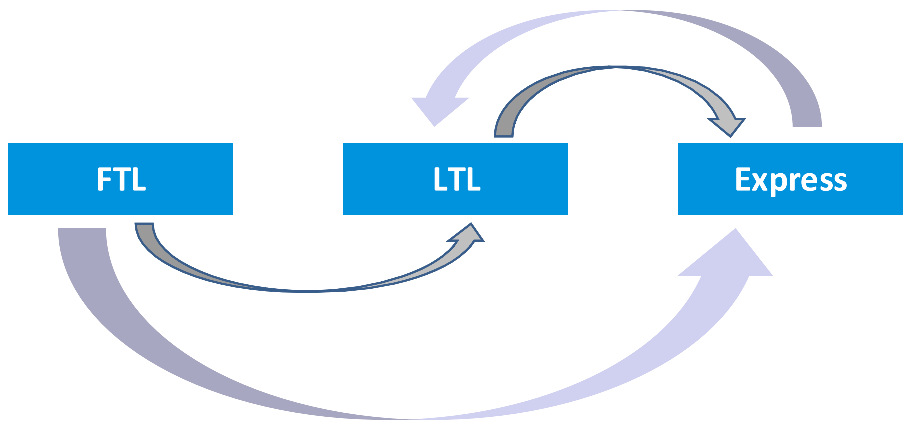
On the other hand, LTL companies will be inclined to do more express business and similarly express companies have also started doing LTL consignments

Table 11: Break down of the USD100bn road logistics sector

	FTL	LTL	Road Express
Share of Road Transportation (%)	~88%	~10%	~2%
Share of organized (%)	<10%	20-40%	~50%
Cost to customer (INR/ton-km)	2.5-3.5	6-Sep	20-40
EBIT margin (%)	2-4%	8-11%	9-12%
RoCE (%)	10-12%	15-17%	25-35%
Delivery time	96 to 120 hours	72 to 96 hours	Under 72 hours
Delivery type	Godown Booking – Godown Delivery	Flexible	Door to Door

Source: Edelweiss research, Various logistics players

Fig. 16: Shifts underway within road transportation



Source: Edelweiss research

High fragmentation, low pricing power

The road transportation sector is highly fragmented with the presence of a large number of unorganised small truck operators. It is estimated that over 70% of truck owners in India have a fleet size of between one and five trucks. Truck operators are heavily dependent on intermediaries such as brokers and booking agents. The handlers hold a dominant position in pricing freight rates, shrinking margins of truck operators. Consequently, pure road transportation or trucking lacks pricing power and has low ability to pass on rising fuel and other costs. Larger fleet owners such as VRL and TCI are obviously much better placed due to a large client base which they use to optimise utilisation and achieve better margin/RoCE.

Chart 27: Fragmented truck ownership limits pricing power

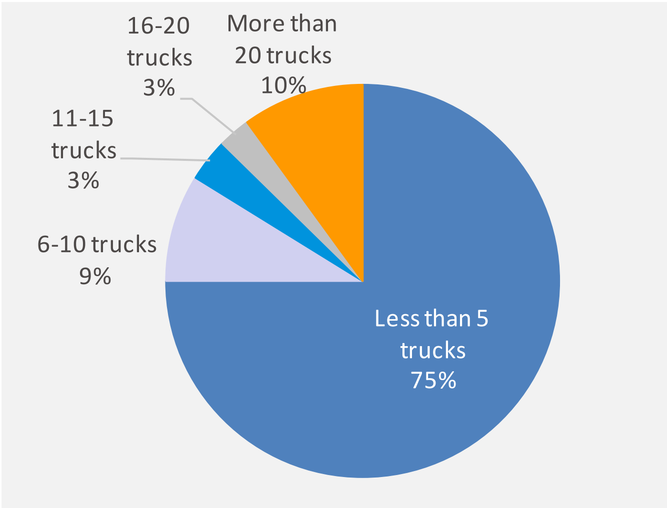
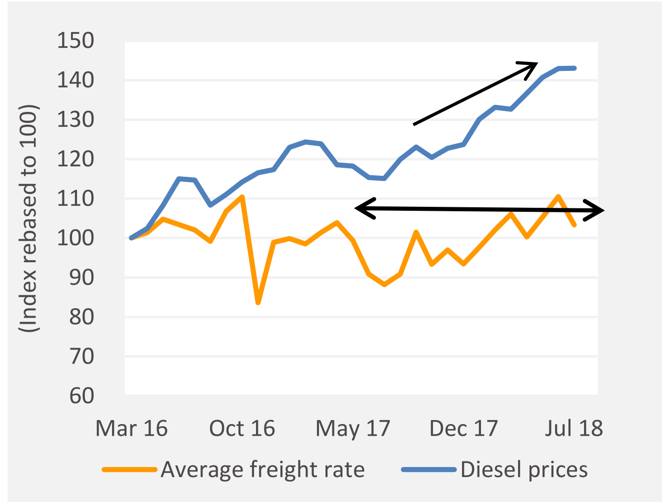
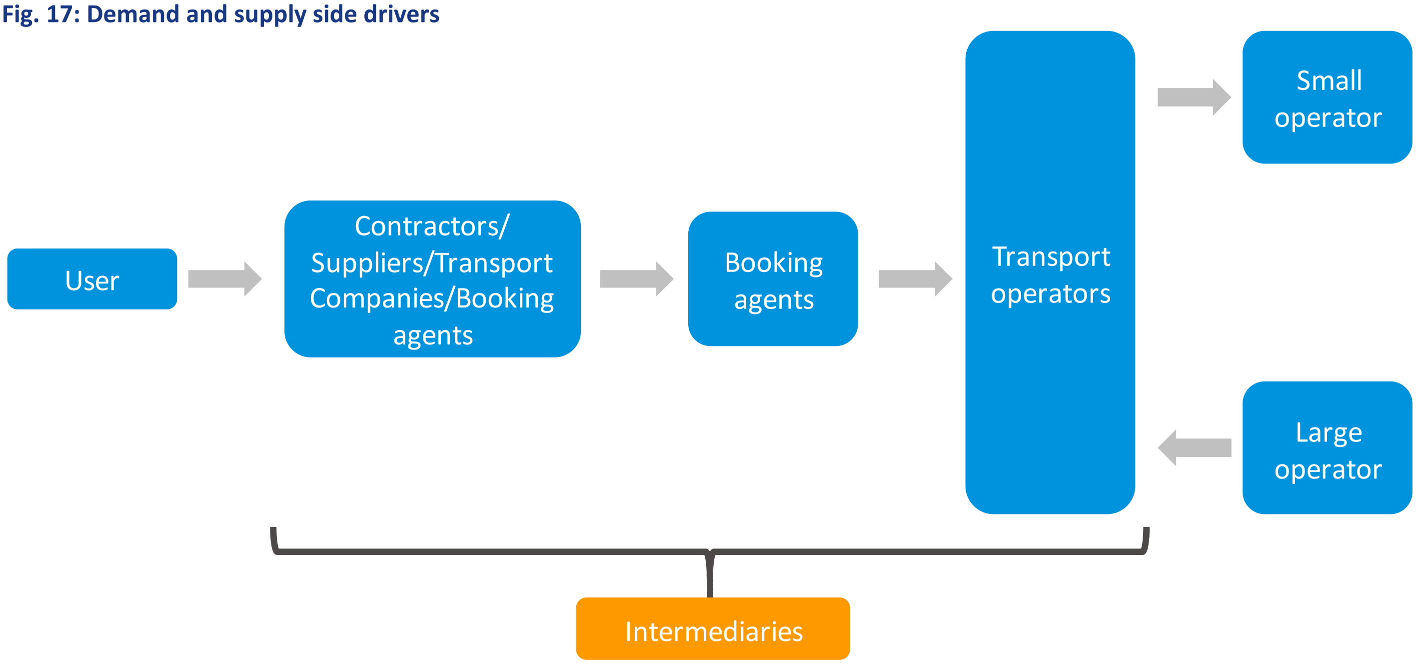


Chart 28: Passing on rising fuel costs has been a challenge



Source: Edelweiss research

Fig. 17: Demand and supply side drivers



Source: Edelweiss research

Established players are venturing into high margin LTL business

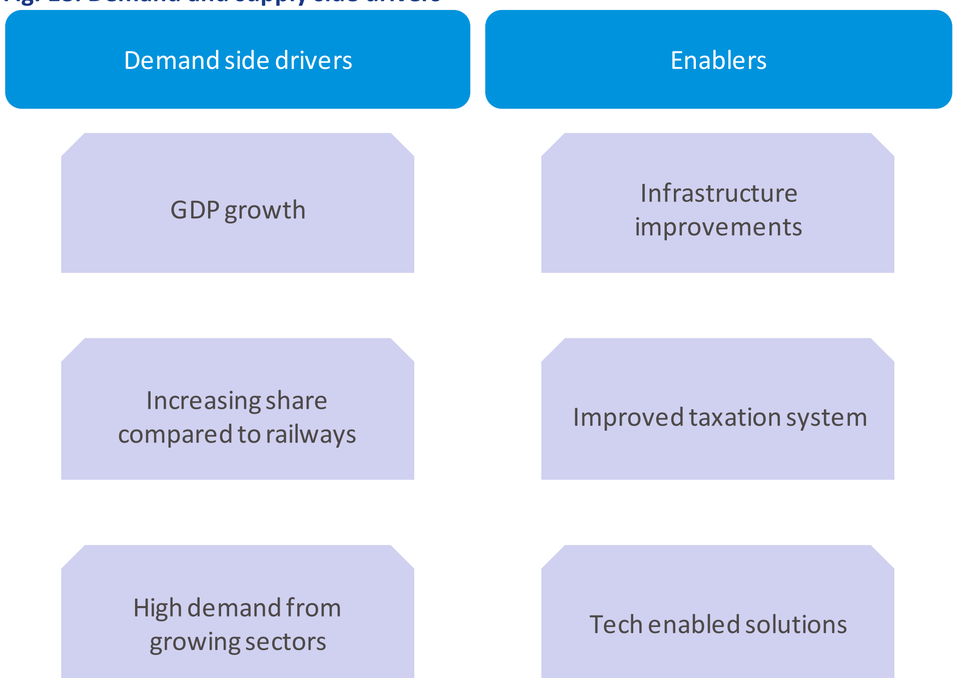
As per above, we estimate that about 88% of the road transportation business works on FTL basis, wherein the consignor books the entire truck to carry cargo, as opposed to LTL wherein the truck operator aggregates cargo from different consignors. On per kg basis, LTL has relatively higher margin compared to FTL as the customer has relatively low bargaining power. Established players who have large fleets of about 1,000 plus trucks are able to venture into the high margin LTL business. We are positive on major industry players like TCI, who are have established FTL business and are also expanding into the LTL segment.

Moving from traditional to asset light model

Traditional road logistics providers used to own the entire vehicle fleet. For large organised players such as VRL operating on the traditional owned model, EBITDA margins are in the 12-15% range and RoCE between 17% and 22%.

Under the asset light model such as TCI's, a logistics company does not own the fleet, but involves sub-contracting the fleet from smaller players. EBITDA margins and RoCE of asset light players range between 3-5% and 12-15%, respectively. We are positive on companies operating on the asset light model as they can scale business with minimal capex and pass on costs to end users.

Fig. 18: Demand and supply side drivers



Source: Edelweiss research

Demand drivers:

- **Growth in economic activity:** In FY18, India's estimated nominal GDP was USD2.8tn and road logistics contributed more than 3.5% to it. In line with growth in economic activity, demand for transportation services will grow. By FY25, we estimate freight transportation by road to constitute 70% plus of total domestic freight transportation.
    - **Transition from rail to road:** In the 1950s, the proportion of goods carried by rail and road was 89% and 11%, respectively. By 2013, the share of road freight increased to ~65%. Even though freight transportation through rail requires lesser fuel consumption and is cheaper on cost per tonne basis compared to road transport, the shift from rail to road has been majorly on account of capacity constraints, non-competitive tariff, connectivity, infrastructure and subsidisation of passenger transportation by charging higher freights.
    - While initiatives such as Direct Freight Corridor and tariff revisions will boost the sector, we do not see the trend reversing in rail's favour. We believe, infra improvements in roads, positive regulatory changes and growth in overall demand

will further increase the share of roads in freight transportation, which we estimate to stabilise at around 70%.

  - Consumption in remote locations, rural areas and difficult terrain is expected to increase. Lack of rail or port connectivity will increase dependence on road transport to fulfil the spurt in consumption, which is the only mode of transport which can reach these destinations.

- **Demand from high growth sectors**: Sectors such as retail, e-commerce and FMCG are estimated to clock 20% plus CAGR over FY18-25. The sharpened focus on direct customer delivery, e-commerce penetration, reduced delivery times and increasing customer expectations is envisaged to boost demand for road transportation.

Organised retailing (brick & mortar and online) forms one of the largest end-user industries for logistics in India (and globally as well) as the sector prefers outsourcing majority of its supply chain related operations because of the volume and complexity of operations. Therefore, the strong growth of organised retailing in India (FY15-20 CAGR of 22%) should drive overall growth in logistics. In addition, growth in online retail/e-commerce is expected to be much higher. From the current USD4bn, it is estimated to post 55% CAGR to USD76bn over CY14-21.

Supply-side factors / enablers:

- **Investments and expansion of road infrastructure:** India's road network comprises 115,435km of national highways, while the total road network spans 5.6mn km. Road building rate has increased from about 12km per day in FY15 to around 27km per day in FY18; the government is targeting ~40km per day. In FY18, 122,432km of highways were constructed.

- **Efficiencies due to simplified tax system:** With GST and implementation of e-way bill, transit times at inter-state border check points, which previously accounted for up to 60% of the total transit time, have been reduced. While this reduction will increase the trucking capacity sans further investments due to a skewed demand and the time required to see the full effects of GST, realisation of additional capacity will be gradual.

- **Technological drivers:** Technology is changing the landscape of road transport in India. Various startups are using more intensive technology to provide real-time tracking of trucks, increased transparency and accuracy with regard to delivery times and more efficient capacity utilisation. Due to tech-enabled scheduling of loads, the use of middlemen is reducing and resulting in higher efficiency. We can see the apparent benefits of new tech-based business models; however, it poses a threat to established road transport companies and forces them to come up with innovative solutions to hold their market shares.

Rail logistics: Waiting for the DFC trigger

Indian Railways has the world's fourth longest rail network in the world after US, Russia and China. As of March 2018, total route km was 67,638km, of which 32.69% was double/multiple track. The increased share of routes in favour of passenger trains, low (average passenger train speeds is ~44km per hour while that of freight trains is low at ~24km per hour), inadequate capex and subsidisation of passenger travel by higher freight costs has aided roads to become the major freight transport medium.

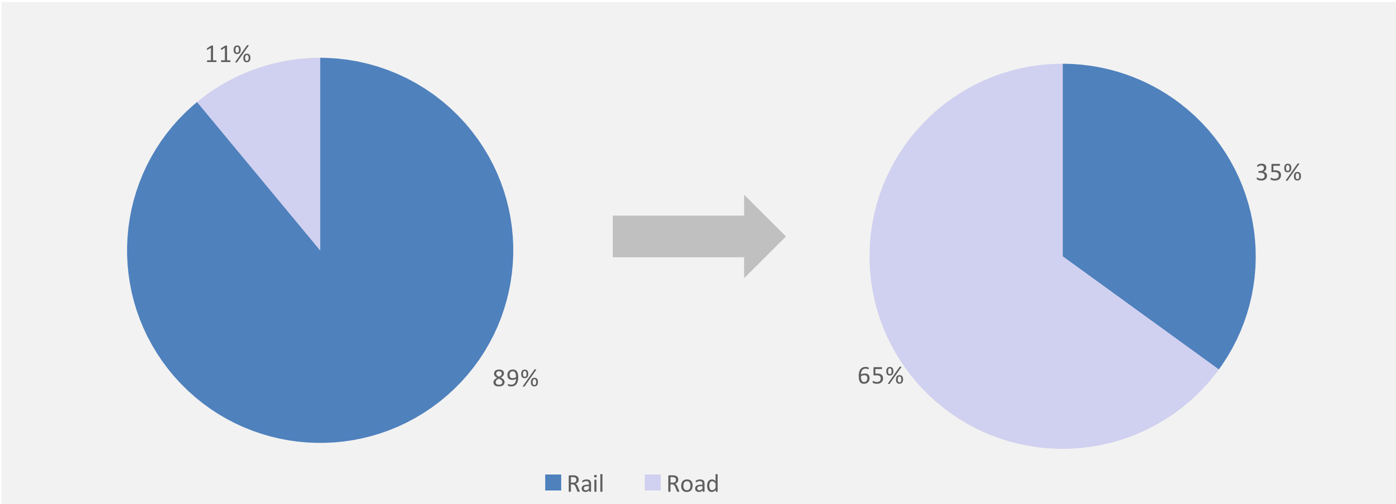
Indian container rail: A case of huge under investment

- In 2006, Indian Railways deregulated rail transportation of containers—its first major effort towards attracting private capital to the sector. Currently, there are around 15 private container-train operators in India, of which three-four are inactive. Since deregulation, private investors have pumped in INR40bn plus in wagons, containers and terminals in addition to INR6.5bn plus in licence fees.
- Frequent and steep increase in rail haulage charges for container trains and incongruous policy decisions have impacted investments in this segment. Even in other commodities, railways consistently lost out to roads as it did not install adequate capacity or respond to market needs.
- Economic growth, as seen in India over the past decade, has led to congested roads and an over-burdened railway network. India has 4mn km of roads, accounting for nearly 60% of domestic traffic, of which the National Highways constitute only 1.7%, but carry as much as 40% total road freight. The divide between the two modes became even more pronounced as roads expanded rapidly on focused policy and investments, particularly during the previous decade.

Container train operations (CTO): Business model

- CTO's revenues are driven by a combination of container movement and storage charges received from ICDs (if owned). Of the total revenue, ~15-20% is attributable to storage charges, whereas majority is related to transportation revenue, as per our estimate. CTO's breakeven depends on the distance moved by a rake, tonnage, value-added services, realisations, etc. Utilisation levels are highly dependent on return load and turnaround times are extremely critical in determining the profitability of these operations.
- Container rail operators have to pay Indian Railways a fixed charge for using the rail network to move a rake to its destination. Thus, return loads, i.e., cargo to be moved from the destination to the start point, go a long way in improving utilisation levels and profitability of the business. The average turnaround time in the domestic business typically stands at three-four trips (to and fro) in a month per rake, while turnaround times for EXIM segment can go up to seven-eight trips (to and fro). The container rail business is capital-intensive and requires a long gestation period to build volumes. However, once a company achieves a level to attain economies of scale in terms of rail sidings, rakes as also volumes, returns are typically quite high.

Chart 29: Rail share declined from 89% in 1950 to less than 35% in 2018



Source: NITI Aayog; Edelweiss research

Volume trends have been steady; realisation has improved

Since FY10, India's container freight volumes have registered steady growth with CAGR of ~6%. EXIM volumes, which constitute ~80% of container freight volumes, have posted better CAGR of ~7% during FY10-18, while domestic volumes have been sluggish at 2.6% CAGR. Going forward, we estimate the rail freight segment to post overall volume growth of 6-7% p.a.

Though realization (per tonne km transported) has been flattish in the past two years, since FY10 it has posted 7% annual increase (CAGR). Realisation trends for container freight are a function of the rail haulage that is charged by Indian Railways and hence haulage has been consistently raised by Indian Railways.

In effect, we estimate the rail freight segment to clock 13-14% revenue growth p.a. over the next three years with equal contribution from volumes and price hikes.

Chart 30: Rail container volumes evolution

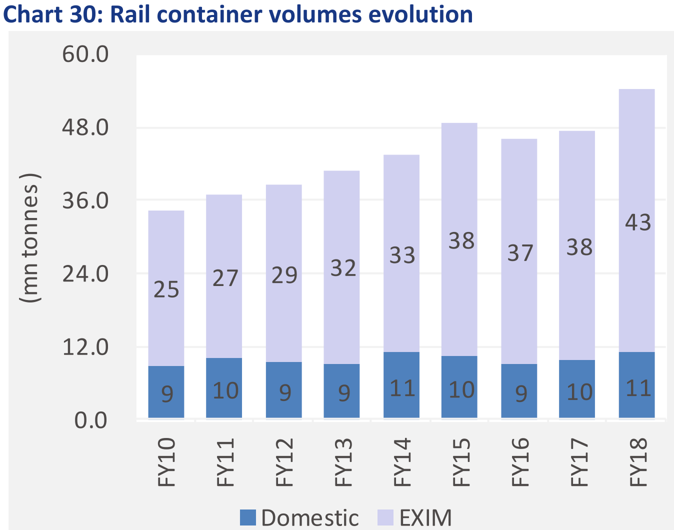
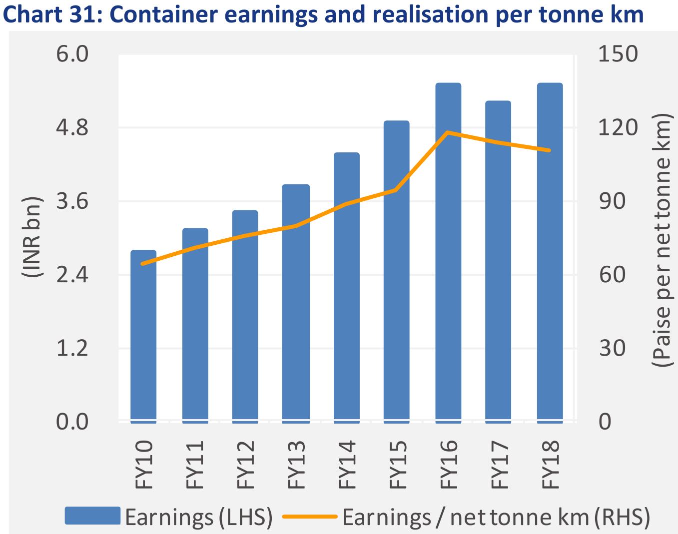


Chart 31: Container earnings and realisation per tonne km



Source: Ministry of Railways; Edelweiss research

Long-term strategic plan of Indian Railways is to construct six high capacity, high-speed corridors along the Golden Quadrilateral and its diagonals

DFCs: Finally a change on the horizon

Background:

Dedicated Freight Corridors (DFC) were first proposed in the Eleventh Five year Plan of India (2007-12) under the direction of the Government of India. The long-term vision was to enable Indian Railways to manage goods traffic as well as customer traffic more efficiently to support cost effective transportation of raw material like coal and cement on one hand, and boost international trade, on the other. The need was born out of road congestions, inability of existing network to support the ever increasing demand and the expensive alternatives to rail transport.

This led to the DFC project taking shape and post a feasibility study by RITES, a special purpose vehicle Dedicated Freight Corridor Corporation of India (DFCCIL) was created to bring this dream project into reality. The Golden Quadrilateral Freight Corridor, as part of the plan, involves construction of six DFCs, of which two are under construction and the balance four are still in the planning stage. Total length of the rail line across all six DFCs is planned at 9,485km.

DFC should inject volume and efficiency in the system

In India, passenger trains receive preference on railway routes and as a result container trains usually end up clocking paltry 30-40kmph mileage. This is primarily due to the fact that container trains share the same railway infrastructure or railway tracks as passenger trains. The DFC project launched in 2006, was initially set to be commissioned around 2014-16 and expected to solve this problem of sharing tracks with passenger trains. The full-fledged commissioning has since been delayed and now expected to be around FY21.

What can pan out realistically?

As per Indian Railways and a RITES report, the volume potential that the two DFCs can add is immense. The combined potential addition of Eastern and Western DFCs can be more than 100mmt, as per these forecasts.

In our view, this is more of a blue sky scenario rather than a realistic forecast considering that existing container rail freight market is only 55mmt at the national level. While we agree that this existing market has been constrained by lack of capacity, we also point out that a portion of DFC volumes will logically switch from this existing capacity.

In our view, post commissioning, DFC should realistically and incrementally add about 30-40mmt to the system over a course of four-five years. This includes the shift of container movement from the existing passenger network. This shift will obviously be led by efficiency drivers of quick turnaround times and potentially more competitive pricing. If commissioned in a timely manner, we believe 30-40mmt estimate by FY25-26 is possible.

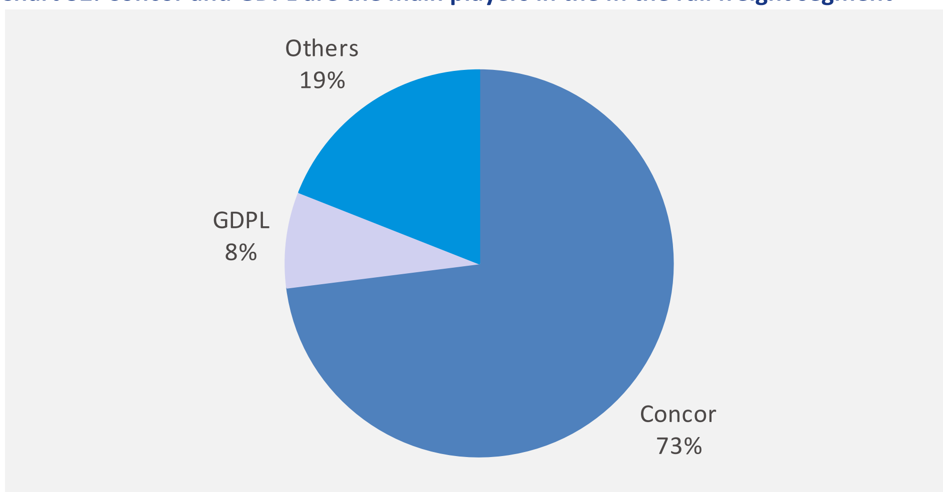
Concor dominates CTO; Gateway largest private play

Indian Railways has a monopoly in rail movement in every segment, except container rail. Even in container movement, Container Corp (Concor), a government entity, has a monopoly. In 2006, railways opened the container movement segment to private competition. While the share of Concor still remains significant at ~75%, private players, especially Gateaway Distriparks (Unrated), has created a singnificant presence in this space.

While nearly a decade has passed since private competition was permitted in the business, expansion of private CTO operators has been limited. The number of ICDs and rakes owned by Concor is more than the entire industry combined. The focus of other players has been on the Western corridor i.e., EXIM container service from western ports (JNPT, Mundra and Pipavav) to the Northern hinterland.

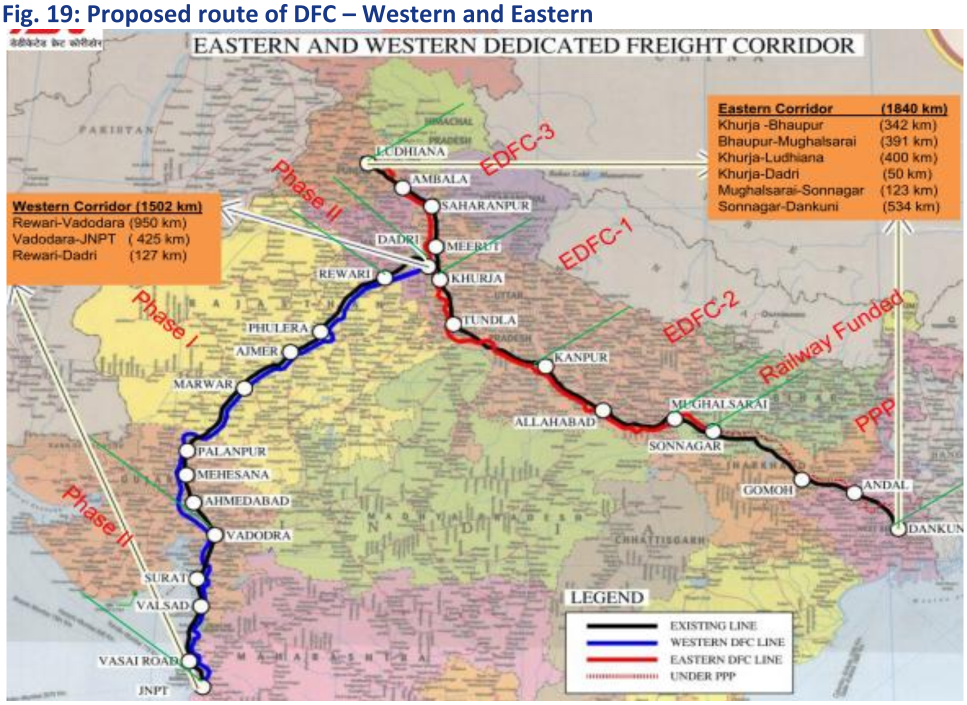
In 2017, Indian Railways permitted private players to run their own freight trains between their own terminals. However, the train operations were to be managed by Indian Railways in return of track and other usage charges. We believe, this will cause companies to create private terminals and move from cargo as a more efficient mode of transport. However, due to very few players opting the current road, rail mix is likely to continue, in our view.

Chart 32: Concor and GDPL are the main players in the in the rail freight segment



Source: Indian Railways, Edelweiss research

Fig. 19: Proposed route of DFC – Western and Eastern

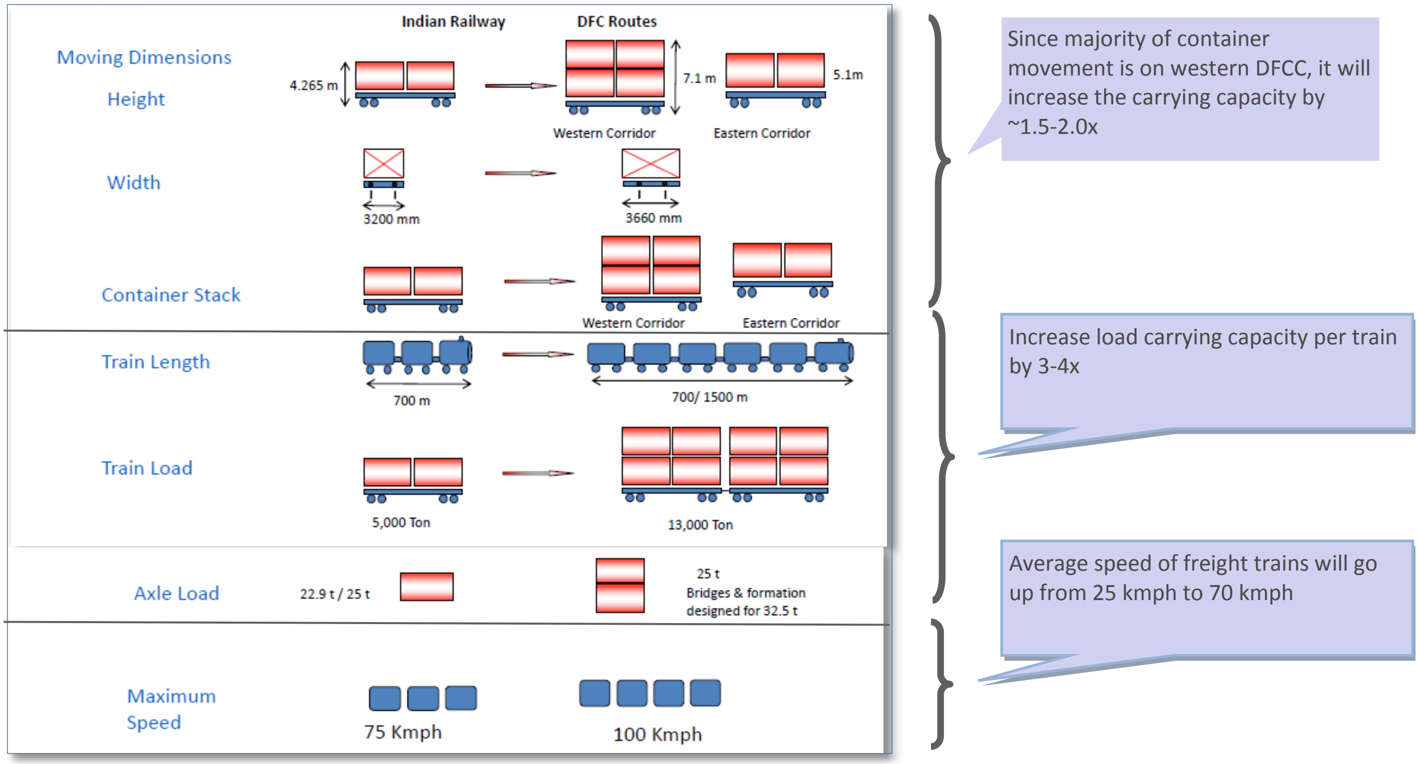


Source: DFCCIL

Effect on railways: Increased speed, higher load carrying capacity at same cost

A combination of guranteed timlines, faster speed and higher carrying capacity will lead to an increase in volumes as well as reduction in freight carriage cost.

Fig. 20: DFCC brings hosts of benefits



Source: Edelweiss research, DFCCIL

Valuations: How much to pay for growth?

Methodology: For our coverage, we have relied on two methodologies for valuing stocks. For structural growth segments with longer growth runways, a more fundamental approach is warranted, which reflects the absolute fair value. Hence, we have valued such structural plays on a discounted cash flow (DCF) basis. For businesses that are semi-structural and tend to show some dependence on demand and cost cycles, we have used relative valuations. For relative valuations, we base our assigned multiples on fundamental variables such as implied long-term growth, cost of capital and return ratios.

DCF captures potential of structural growth stories better

For structural compounding stories such as **Mahindra Logistics (BUY), TCI Express (BUY) and TCI's supply chain division (BUY on TCI)**, we use a three-stage DCF for arriving at our fair value target prices. Further, our approach is to look at what implied earnings CAGR the current valuations are factoring in over the next decade. Using this, we see current valuations are discounting very achievable earnings CAGR for all the three stocks (compared to what we believe is realistic potential). Our DCF shows that current stock prices for these three stocks factor in FY18-28 implied EBITDA CAGR of 16-18%, while we believe that 18-22% EBITDA CAGR expectation is realistic and achievable, thus reflecting upsides from current levels.

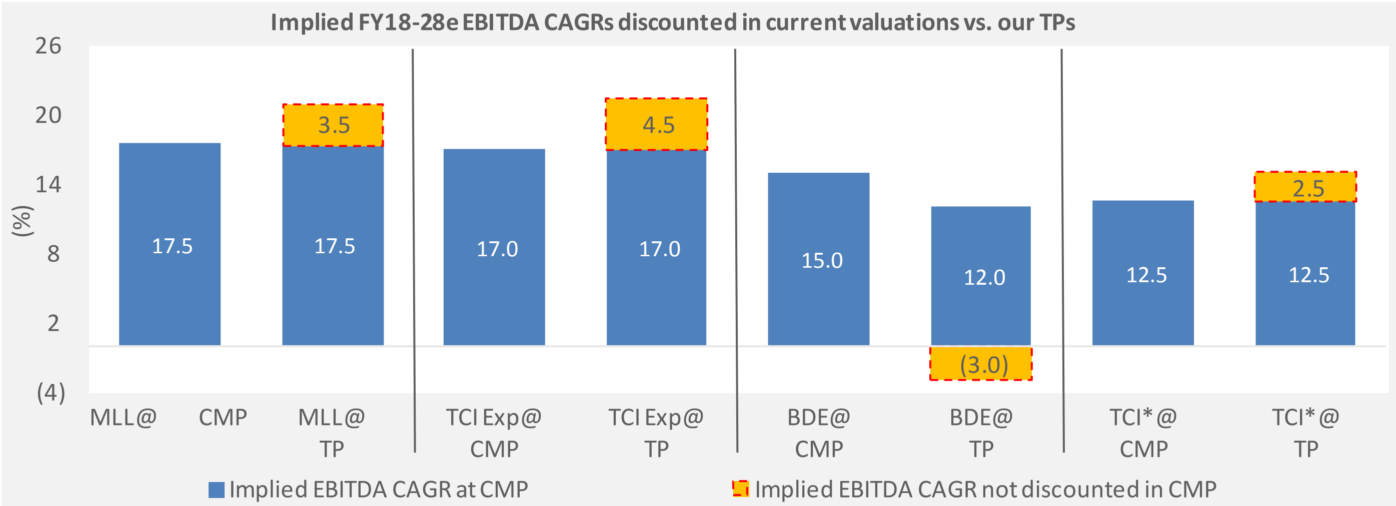
Relative valuations for semi-cyclical stocks

For **Blue Dart (REDUCE), Concor (HOLD) and VRL Logistics (HOLD),** which are semi-structural in our view, we assign PE-based valuations. These multiples are based on their earnings growth and return ratio profiles.

We value **Blue Dart** at PE of 30x as we believe it is a fair multiple which captures a realistic long-term earnings growth of ~12%. At the current PE of 40x, BDE will need to deliver ~15% EBITDA CAGR for the next 5-10 years, which will be difficult, in our view.

To **Concor** we assign PE multiple of 18x to its existing business based on its long-term earnings growth potential and use cash flow valuation for the DFC related earnings. However, the upside is limited, in our view. In our view, one third of Concor's current valuation comes from DFC's option value. We value **VRL Logistics** at PE of 23x to arrive at one-year TP, which we believe is fair given the long term EPS growth of 14-15%.

Chart 33: Implied 10-year EBITDA CAGR at current valuations vs. our fair value TPs



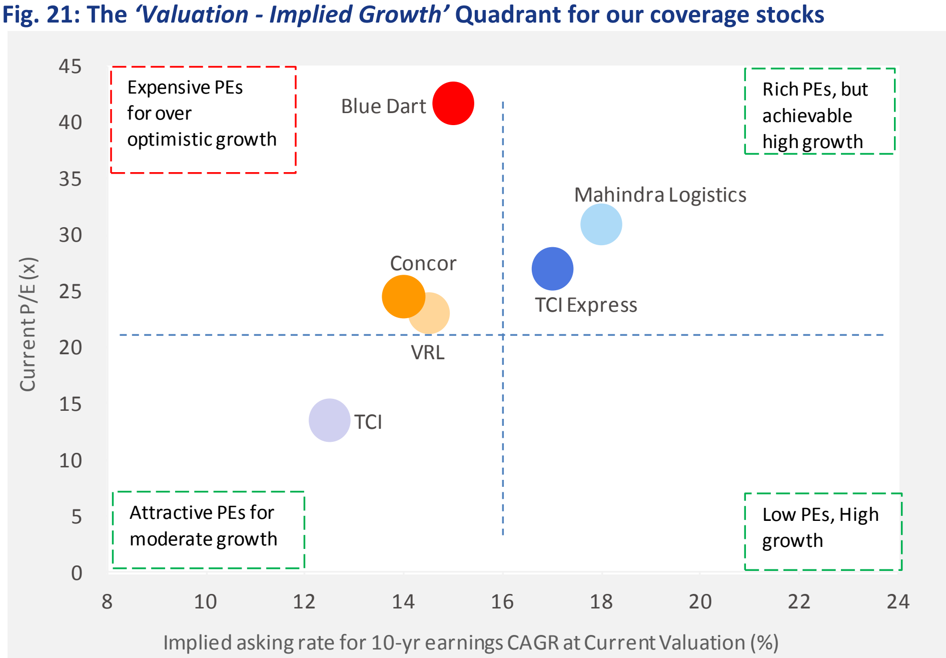
Source: Edelweiss research

Table 12: Snapshot of companies on which we are initiating coverage

Stock	CMP (INR/sh)	TP (INR/sh)	Mcap (INR bn)	Rating	PE (x) FY19E	PE (x) FY20E	RoE (x) FY19E	RoE (x) FY20E	CAGR (FY18-20E) Sales	CAGR (FY18-20E) EBITDA	CAGR (FY18-20E) EPS	OCF/EBITDA FY19E	OCF/EBITDA FY20E
Mahindra Logistics	513	640	37.6	Buy	38.2	31.3	20.7	21.1	12.4	25.4	34.6	60.9	58.9
TCI Ltd.	277	318	21.1	Buy	14.8	13.3	17.7	17.4	15.7	17.5	13.6	70.5	67.8
TCI Express	613	765	23.3	Buy	33.8	27.2	29.6	29.3	17.8	26.1	21.6	55.0	56.7
Blue Dart	3,110	2,200	73.4	Reduce	50.4	38.9	24.6	24.0	11.5	9.5	10.3	77.1	77.0
Container Corporation	674	736	327.2	Hold	27.1	23.9	11.9	12.8	11.5	17.1	14.6	74.4	80.6
VRL Logistics	307	312	28.0	Hold	27.9	23.6	16.1	17.0	10.6	10.2	13.0	75.2	72.7

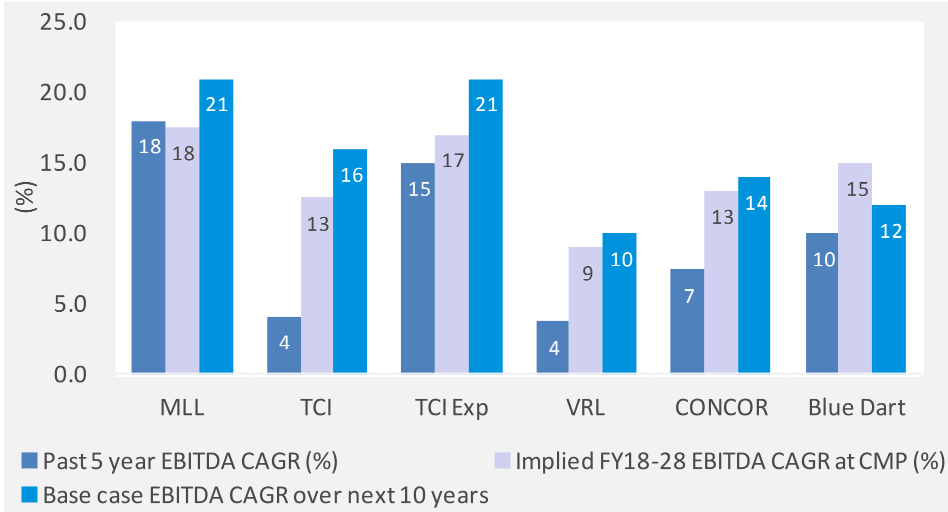
Source: Bloomberg; Edelweiss research

Fig. 21: The *'Valuation - Implied Growth'* Quadrant for our coverage stocks



Source: Edelweiss research

Chart 34: Actual EBITDA CAGR during previous 5 years, implied EBITDA growth at current valuations and our base case EBITDA CAGR



Source: Company; Edelweiss research

Valuation charts: How much to pay for growth?

Chart 35: MLL – Current PE vs. justified PE & EBITDA CAGR

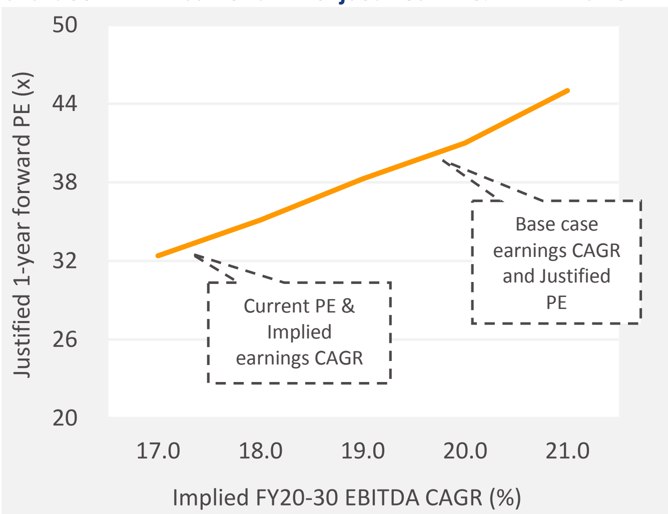


Chart 36: TCIEXP – Current PE vs. justified PE & EBITDA CAGR

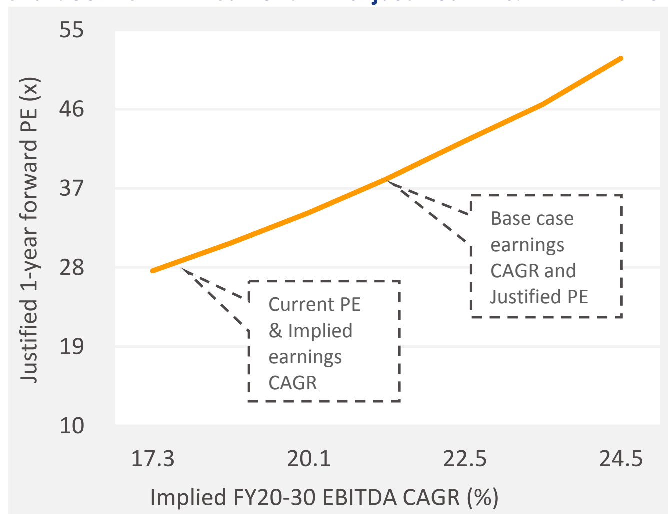


Chart 37: TCI – Current PE vs. justified PE & EBITDA CAGR

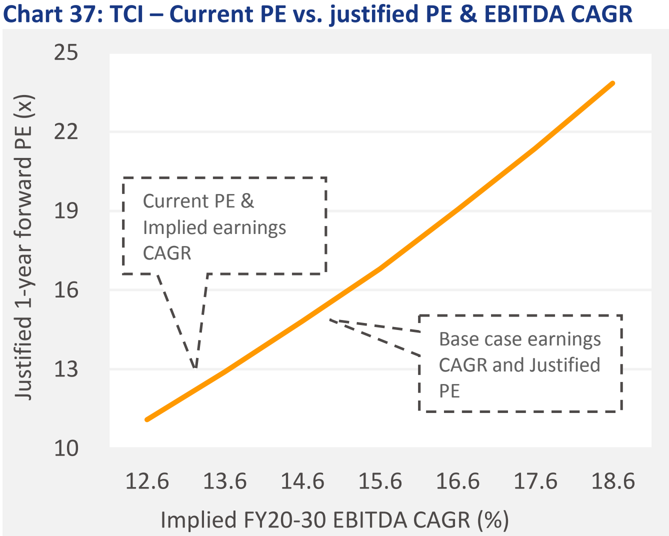
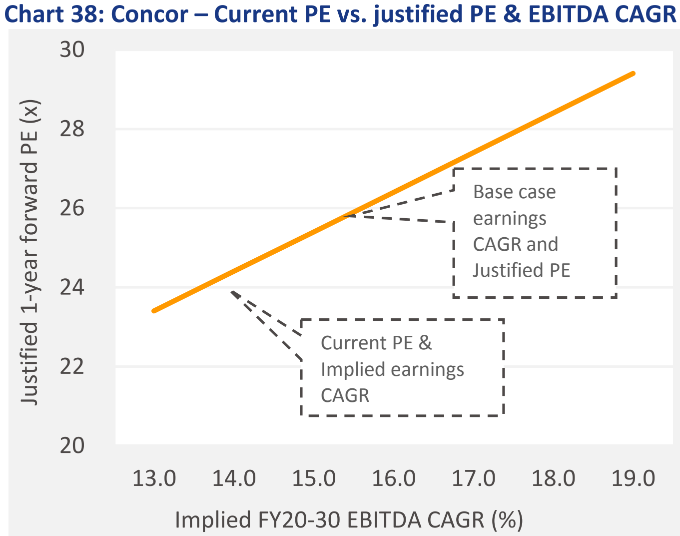


Chart 38: Concor – Current PE vs. justified PE & EBITDA CAGR



Source: Edelweiss research

Chart 39: VRL – Current PE vs. justified PE & EBITDA CAGR

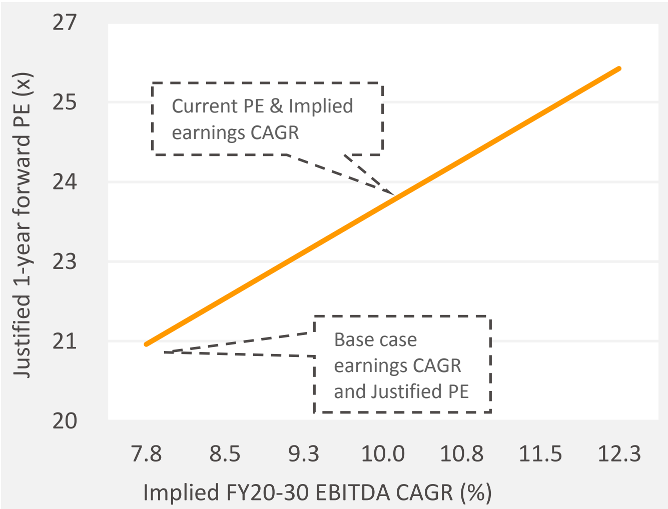
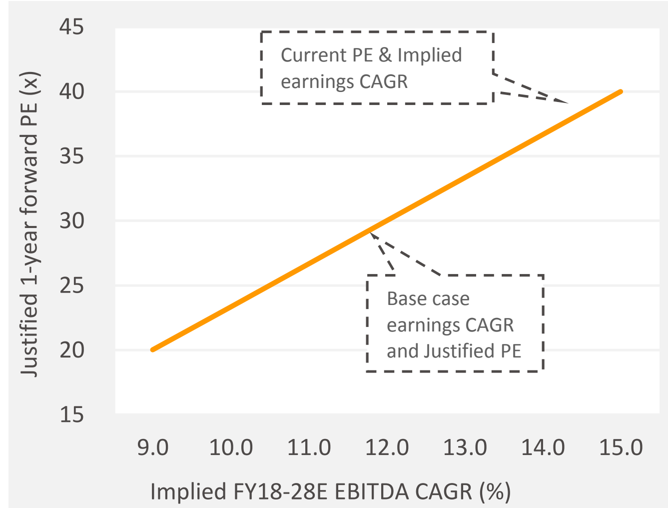


Chart 40: Blue Dart – Curr. PE vs. justified PE & EBITDA CAGR



Source: Edelweiss research

Table 13: Valuation for the key listed stocks in the Indian Logistics space

					PE (x)		RoE (x)		CAGR (FY18-20E)			OCF/EBITDA		
Stock	CMP (INR/sh)	TP (INR/sh)	Mcap (INR bn)	Rating	FY19E	FY20E	FY19E	FY20E	Sales	EBITDA	EPS	FY18E	FY19E	FY20E
3PL														
Mahindra Logistics	513	640	37.6	Buy	38.2	31.3	20.7	21.1	12.4	25.4	34.6	10.0	60.9	58.9
TCI Ltd.	277	318	21.1	Buy	14.8	13.3	17.7	17.4	15.7	17.5	13.6	84.7	70.5	67.8
Future Supply Chain	655	866	26.2	Buy	27.4	20.0	19.5	23.9	50.1	38.3	50.1	127.0	N/A	N/A
Express														
TCI Express	613	765	23.3	Buy	33.8	27.2	29.6	29.3	17.8	25.0	21.6	81.5	55.0	56.7
Blue Dart	3,110	2,200	73.4	Reduce	50.4	38.9	24.6	24.0	11.5	9.5	10.3	90.2	77.1	77.0
GATI	80	N/A	8.4	Unrated	35.1	20.3	3.9	6.2						
Rail														
Container Corporation	674	736	327.2	Hold	27.1	23.9	11.9	12.8	11.5	17.1	14.6	88.6	74.4	80.6
Road														
VRL Logistics	307	312	28.0	Hold	27.9	23.6	16.1	17.0	10.6	10.2	13.0	87.8	75.2	72.7
CFS/ICD/Warehousing														
Navkar	86	N/A	12.6	Unrated	9.8	6.9	7.2	9.3						
Snowman	36	N/A	6.0	Unrated	38.0	18.5	3.6	7.2						
Aegis	215	N/A	72.2	Unrated	30.2	22.4	18.0	20.9						
Gateway Distriparks	163	N/A	17.2	Unrated	17.3	15.5	10.9	13.2						
Allcargo	100	N/A	23.7	Unrated	9.9	7.5	10.1	11.7						

Source: Edelweiss research, Bloomberg

Table 14: Valuation for the key listed stocks in the Global Logistics space

Stock	STX	Market cap (USD bn)	PE (x) FY18E	PE (x) FY19E	PE (x) FY20E	RoE FY18E	RoE FY19E	RoE FY20E	CAGR (FY18-20E) Sales	CAGR (FY18-20E) EBITDA	CAGR (FY18-20E) EPS
3PL companies											
Kuehne und Nagel International AG	SWX	15.9	21.6	19.9	18.5	34.0	35.0	35.3	2.7	7.2	8.1
Nippon Express Co Ltd	TYO	6.4	19.4	14.5	13.7	8.5	8.4	8.3	3.8		N/A
CEVA, Inc.	NASDAQ	0.6	45.9	25.2		1.0	2.0				
XPO Logistics Inc	NYSE	9.4	31.7	25.2	20.0	11.7	13.6	17.5	8.1	12.8	26.0
Trucking & Freight forwarding											
J B Hunt Transport Services Inc	NASDAQ	11.9	22.4	18.8	16.9	29.8	30.6	27.7	9.1	10.2	15.2
DSV A/S	CPH	14.2	24.9	22.2	19.8	26.9	28.4	31.0	4.5	7.1	12.1
Yamato Holdings	TYO	10.6		33.8	26.9	7.1	7.1	8.5			
C.H. Robinson Worldwide Inc	NASDAQ	12.5	21.9	19.8	18.8	40.3	41.2	40.1	4.3	6.7	7.9
YRC Worldwide Inc	NASDAQ	0.2	12.1	5.6	4.8				4.3	9.4	58.7
Rail freight											
Canadian National Railway	TSE	63.2	21.5	18.8	16.9	21.9	22.7	24.5	6.8	9.5	12.7
Union Pacific Corporation	NYSE	111.0	21.1	18.6	16.4	25.8	32.0	10.8	4.5	7.4	13.7
CSX Corporation	NASDAQ	60.9	20.6	18.4	16.3	21.8	24.1	27.7	3.5	6.0	12.6
Norfolk Southern	NYSE	46.4	20.1	18.2	16.3	15.4	16.6	16.6			
Express companies											
Deutsche Post AG	ETR	39.6	16.3	12.8	11.5	17.1	19.8	20.1	4.6	13.2	23.5
FedEx Corporation	NYSE	59.6	19.3	13.4	11.6	25.8	22.3	22.3	7.1	9.5	7.0
United Parcel Service, Inc	NYSE	95.6	16.4	15.0	13.8	260.9	117.1	65.0	5.7	9.3	8.8
Panalpina Welttransport Holding AG	SWX	3.1	33.1	24.6	20.7	16.0	22.5	23.4	4.3	12.3	26.5

Source: Edelweiss research, Bloomberg

Historical stock returns have been patchy

From a public market's perspective, we highlight that there have been only certain time periods when listed logistics stocks in India have delivered strong returns, and even these strong returns have been based on short to medium term regulatory changes. However, certain niche categories within the sector have been remarkably more structural and these smaller niche areas have given strong returns to public investors.

Table 15: Stock returns inconsistent, but niche pockets have created large value

	Shareholder value creation (% CAGR, incl dividends) 1-yr	2-yr	3-yr	5-yr	10-yr	15-yr
Concor	(10.6)	7.2	2.4	17.1	13.7	16.7
Blue Dart	(33.6)	(27.0)	(27.3)	0.6	17.8	24.8
TCI Ltd.	0.4	25.9	16.0	57.4	26.3	33.1
TCI Express	15.4					
Mahindra Logistics	30.7					
VRL	(29.3)	(9.2)	(12.1)			
Gateway	(31.2)	(18.6)	(20.2)	12.5	11.5	
Allcargo	(40.3)	(24.3)	(14.1)	16.2	3.9	
Aegis	(1.0)	19.0	36.7	75.4	51.4	51.0
Navkar	(56.3)	(34.3)	(19.2)			
Sical	(24.7)	(5.9)	(0.5)	22.8	14.8	21.9
GATI	(32.3)	(22.5)	(22.1)	26.8	8.7	18.5
Snowman	(27.8)	(25.1)	(27.2)			
NIFTY Index	3.6	11.8	9.7	13.0	13.9	15.3
BSE200 Index	0.6	10.4	10.0	14.6	15.0	15.8

Source: Bloomberg

COMPANIES

India Midcaps

INITIATING COVERAGE

MAHINDRA LOGISTICS

A play on customisation

India Equity Research| Logistics

Edelweiss
Ideas create, values protect

Mahindra Logistics (MLL) is one of the leading third-party logistics (3PL) companies in India with about 60% business coming from its anchor client—parent company Mahindra & Mahindra. MLL is a multi-year compounding story in our view as: 1) it is one of the most equipped plays on the high-growth Indian 3PL space (CAGR of ~17% given strong demand drivers and enablers) with the right strategic attributes to outpace industry growth; and 2) high earnings growth momentum (about 31% EPS CAGR over FY18–21E), which provides a strong fundamental backing to its current valuation. Hence, we initiate with 'BUY' and TP of INR640.

MLL among top three in an USD17bn opportunity

MLL is one of the market leaders in the highly attractive ~USD6bn 3PL sector in India, which has delivered CAGR of 17-18% over FY13–18. We expect this growth rate to sustain driven by a rapid change in customer mindset towards outsourcing their end-to-end logistics needs, GST tailwinds compressing transit times and driving warehousing consolidation, high growth in key customer verticals such as e-commerce and fast adoption of technology-led solutions. These factors could drive up the sector to ~USD17bn by 2025, in our view.

Ticks all the right boxes of a winning formula

Since FY13, MLL has clocked sales/EBITDA CAGR of 17%/27%. We expect this high pace of earnings growth to sustain as the company aces on all critical success enablers: 1) complex solutions; 2) focus on end-to-end solutions; 3) targeted presence in high-growth verticals; 4) an asset-light model; and 5) a strong sales base from anchor client. Management has stated that aggressive expansion of the non-Mahindra/group business is a strategic objective, which will be a key growth driver, in our view. Furthermore, MLL's competence in scaling up its asset-light model is likely to prove to be a key entry barrier.

Outlook & valuations: Solid compounding idea; initiate with 'BUY'

In order to effectively size up the business opportunity, we value MLL on DCF methodology. We estimate the company to deliver FY18–25E EBITDA CAGR of 20%. Since the current stock price factors in only 17.5% EBITDA CAGR, it offers potential upside. Initiate with **'BUY'** and target price of INR640.

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	34,161	38,123	43,129	48,821
EBITDA (INR mn)	1,197	1,582	1,882	2,237
Adjusted Profit (INR mn)	640	955	1,165	1,422
Adjusted Diluted EPS (INR)	9.0	13.4	16.4	20.0
EPS growth (%)	34.8	48.6	21.9	22.1
P/E (x)	57.6	38.8	31.8	26.1
ROACE (%)	25.4	30.2	31.3	32.3
ROAE (%)	16.7	20.7	21.1	21.7

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: MALO BO, B: MAHLOG IN)*

CMP	: INR 516
Target Price	: INR 640
52-week range (INR)	: 652 / 419
Share in issue (mn)	: 71.1
M cap (INR bn/USD mn)	: 38 / 527
Avg. Daily Vol. BSE/NSE ('000)	: 113.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	61.1	61.1	61.1
MF's, FI's & BKs	9.7	8.7	7.8
FII's	9.5	9.4	10.1
Others	19.7	20.8	21.1
** Promoters pledged shares (% of share in issue)*	:		*NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	3.1	(2.2)	(5.3)
3 months	(8.2)	(6.6)	1.5
12 months	4.9	23.7	18.8

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November 26, 2018

Investment Rationale

Right attributes to scale up amid growing opportunity

Our proprietary framework for identifying the winning essentials in India's 3PL market shows that MLL ticks all the right boxes. We see the below aspects as key to match or outpace peers in the years to come.

- ✓ **Growth strategies:**
  - Targeting large and high-growth end-markets
  - Greater complexity solutions should drive higher quality growth
- ✓ **Enablers to execute the strategies**
  - Capability or proven ability to provide customised and end-to-end solutions
  - Established business base or anchor clients
  - Asset-light model or partnering ability—an essential enabler for scaling up
  - Rapid adoption of technology

Fig. 1: 'RIGHT TO WIN' in Indian 3PL market

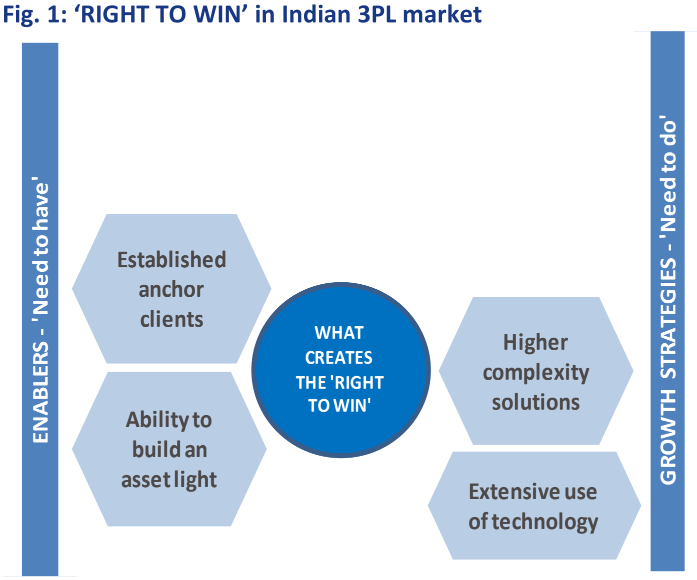
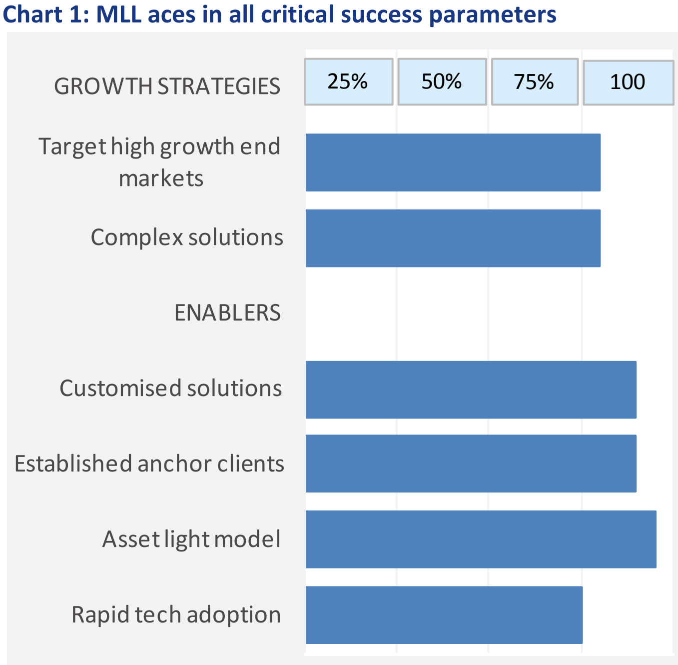
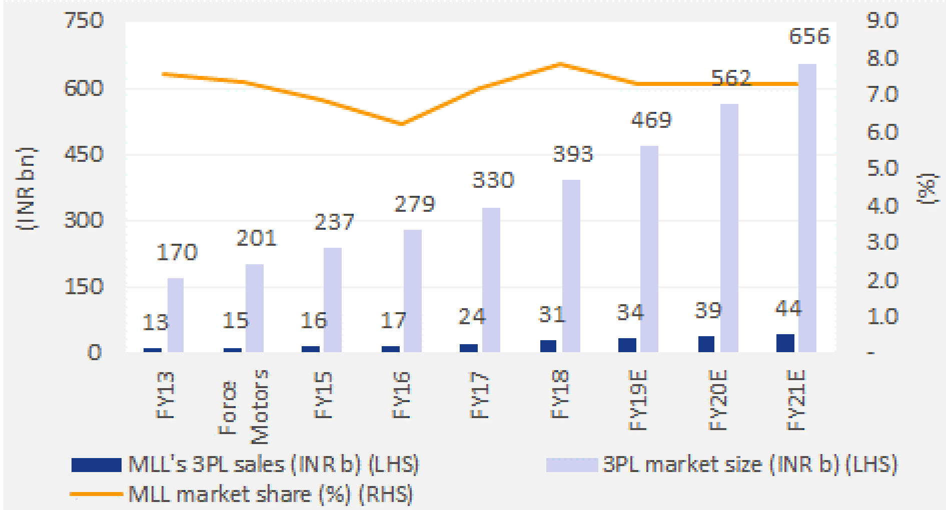


Chart 1: MLL aces in all critical success parameters



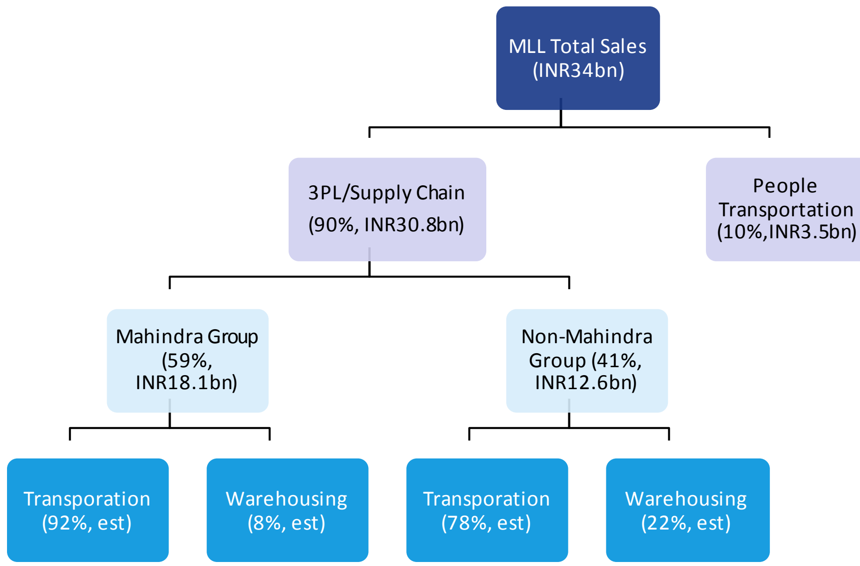
Source: Edelweiss research

Chart 2: MLL's SCM segment has the potential to clock 21% EBITDA CAGR till FY21E



Source: Company, Registrar of Companies, Edelweiss research

Fig. 2: 3PL is key business with a mix of anchor and external clients



Source: Company, Edelweiss estimates

Targeting large and high-growth end markets

After its high dependence on the Mahindra Group as an anchor client in initial years, MLL has been largely successful in building a non-Mahindra revenue stream. The company's non-Mahindra revenue of ~INR12bn in FY18 demonstrates a strong business franchise built up on the foundations of its track record with Mahindra. According to management, client retention in the non-Mahindra segment has been more than 90%, which highlights the stickiness as well.

During FY15–18, non-Mahindra revenue posted CAGR of 52%, which clearly shows two aspects: 1) that MLL has been able to tap other auto companies as clients; and 2) MLL has been successfully getting its foot in the door with other sectors such as consumers, etc.

Management has highlighted non-Mahindra growth as a strategic objective; hence we expect continued management focus on this. We view this as an important strategy being followed by MLL to widen the base business that can sustain growth over the next decade.

Within non-Mahindra, the automobile sector understandably accounts for a larger share (~60%) as MLL would have leveraged its expertise of managing Mahindra Group's logistics. That said, MLL is aggressively targeting e-commerce, consumer, engineering and pharmaceutical segments, which could propel 20% plus sales growth *(discussed later in detail).*

Expertise in providing customised and end-to-end solutions

Over the years, MLL has managed to develop a strong partnership network with vehicle and warehouse owners as well the capability to customise warehousing space to suit client requirements. The skillset of in-factory logistics too been developed. As a result, MLL has been able to provide not only customised offerings, but also end-to-end solutions. Based on our discussions with several supply chain professionals, we understand that customisation particularly helps clients improve service levels, not to mention other key benefits such as cost reduction, scalability and visibility over supply chain.

Fig. 3: MLL's range of services provided to clients

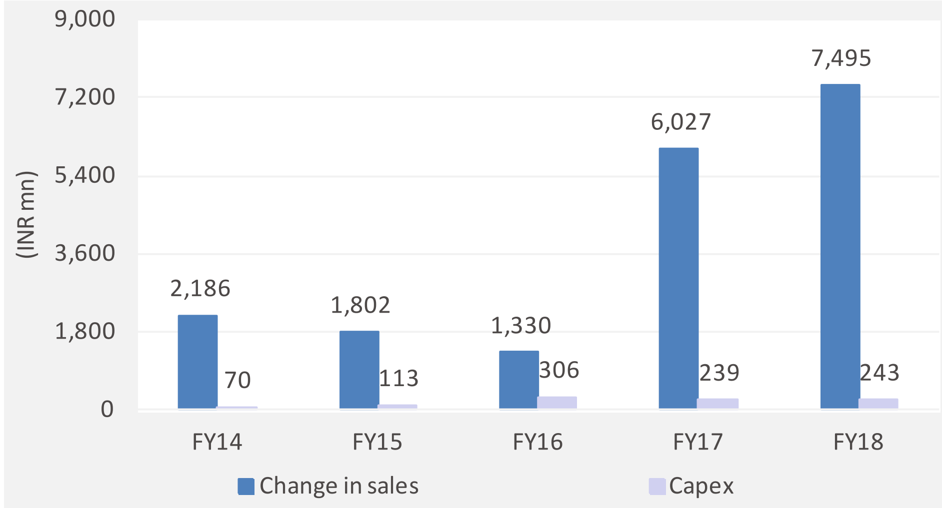
Source: Company presentation

Asset-light model or partnering ability: An enabler and entry barrier

While an asset-light business may seem an easier model to adopt/develop, our checks suggest that vehicle and warehouse owners are generally reluctant to partner with a 3PL company unless a certain level of business or utilisation is assured. In our view, this is an important barrier to entry.

Furthermore, we believe an asset-light model is a key essential for scalability. Over a period a time, MLL has managed to develop strong partnerships with vehicle and warehouse owners, as well as an ability to customise warehousing.

Chart 3: Asset-light model key to scalability, flexibility and a high asset turn



Source: Company, Edelweiss estimates

Rapid adoption of technology

Technology is the backbone of any strong 3PL player in our view. While real-time tracking has become a default offering, the ability of in-house technology to control operations and thus offer greater visibility to customers remain the key functions.

Besides new technology, investments in existing technology for strengthening smooth functioning is critical. According to MLL's filings, it has developed two management systems: the first one is called 'Mahindra Integrated Logistics Execution System (MILES)', which is used exclusively for transportation of finished automobiles; and the second one is called 'MyCargo360', which is a flexible system deployed across sectors. According to management, these tech systems have allowed MLL to slash transit time in several cases.

Conducive backdrop for MLL's story to play out

We believe that the ~USD6bn 3PL is one of the most attractive segments in Indian logistics given the trend of large customers outsourcing their entire logistics and supply chain. According to our estimates, MLL is currently the largest 3PL company in the organised 3PL sector. The company currently has a market share of 7–8% within India's organised 3PL market.

The segment has clocked CAGR of 19–20% over FY13–18, and we expect this growth rate to remain a healthy 17–18% over the next seven–eight years. The two components of growth – end-user sectors and increased outsourcing – reinforce our conviction of a 15-17% CAGR through FY25E.

Key demand drivers and enablers for 3PL market growth

1. **Change in client mindset from 'Non-core to Core':** On the demand side, a rapid transformation is underway with large- and medium-sized companies (clients) reducing the focus on manging their supply chain on their own; they are outsourcing this function end-to-end. Customisation and end-to-end services offered by 3PL companies are facilitating this shift in mindset, in our view. From clients' perspective, our research

and discussions with industry participants indicate that the move to 3PL is driven by two key factors:

a. **Cost savings:** A large number of companies in India still depend on own logistics departments (1PL) or partner a large number of vendors for transportation and warehousing (2PL). This creates inefficiencies not only from a cost outflow point of view, but also in terms of management bandwidth. 3PL is thus turning out to be a critical cost-saving lever.

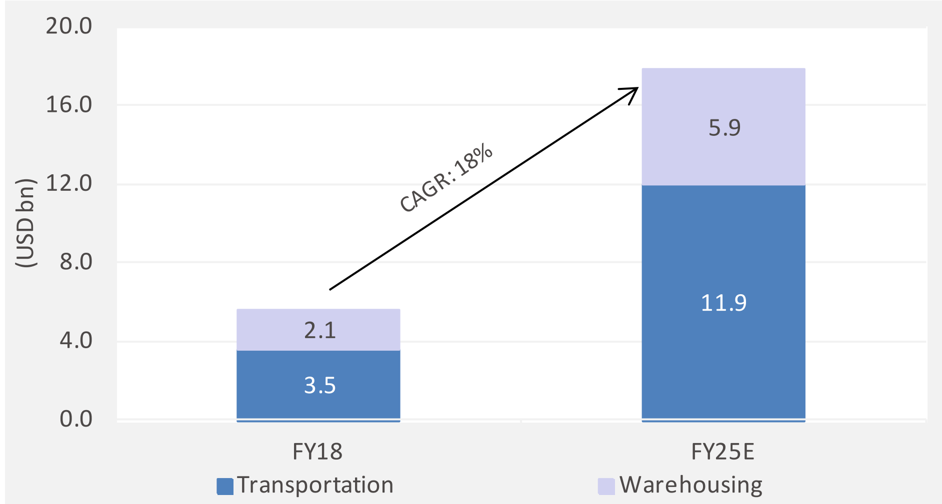
b. **Competitive advantage:** Several clients are opting for 3PL services because it affords them a competitive edge in terms of geographical reach and low turnaround for inventories.

2. **Larger client verticals are steady growth avenues:** For the 3PL market, the key consumer verticals are automotive, auto components, e-commerce and consumers. Among these, we expect auto and auto components to be steady growth contributors with a CAGR of 13–15% while consumer/consumer durables and e-commerce have potential to deliver a CAGR of 20–25% over the next five–seven years.

3. **Supportive regulatory changes:** Despite the initial stumbling blocks, the implementation of GST in 2017 and introduction of the E-way Bill System in 2018 should gradually prove to be strong enablers of efficiency in the transportation and warehousing sectors, in our view. In addition, improvement in road infrastructure – both quantitative and qualitative – has picked up notably over the past seven–eight years. We believe a supportive regulatory environment and the improving infrastructure lends greater credence to 3PL prospects. Furthermore, the government's seriousness can be gauged from the fact that a Department of Logistics was recently formed within the Ministry of Commerce with an objective to reduce inefficiencies in the Indian Logistics sector on a fast-track basis. The logistics sector was also accorded the Infrastructure status recently.

4. **Rapid involvement of technology:** Companies in the logistics sector in developed countries have typically invested heavily in technology, which proved to be critical in driving up their efficiency. Over the past few years, the Indian logistics sector too seems to have identified technology has a key enabler, and we believe that this will be a differentiating factor for 3PL competitiveness. While tracking of vehicles or goods has become a norm, more sophisticated technology, which reduces inventory management costs and enables more customised solutions, is being adopted. This has been also spurring tech start-ups to venture into the logistics sector in recent years.

Chart 4: 3PL sector can potentially grow 3x over next seven years



Source: Edelweiss research

High-growth verticals, warehousing mix key to quality growth

After building a large revenue base with an anchor client (Mahindra), MLL focussed on other customers in Indian automotive sector for expansion. At the same time, MLL has been very aggressive in acquiring customers in other sectors such as FMCG, pharmaceuticals and e-commerce, which is turning out to be one of the fastest growing segments in India. Over the past three years, MLL has been able to clock a sales CAGR of 52% in the Non-Mahindra segment (which too derives ~60% of business from the auto sector).

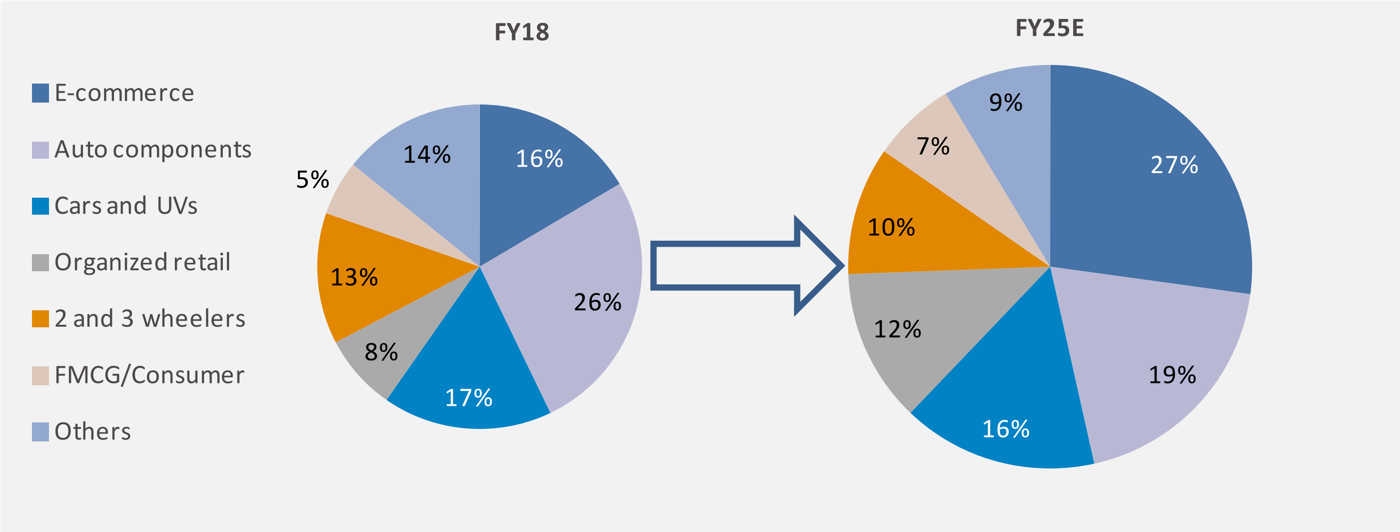
We view MLL's focus on non-Mahindra sales as a necessary strategy since it meets 90–95% of the logistics requirements of the Mahindra Group (primarily M&M and Mahindra Farm Equipment division) is met from MLL. While logistic costs for the Mahindra Group are likely to grow at double digits, a much bigger opportunity actually lies in other sectors in our view, e.g. sectors such consumer durables or organised retail currently outsource very little to 3PL players. E-commerce, which contributes 15% to the 3PL sector's size has the potential to grow 25–30% annually, is another case in point.

Table 1: Our growth outlook for key 3PL verticals

Customer vertical	Share in 3PL market (%)	Logistic costs as a % of vertical revenue (%)	Expected growth in 3PL costs FY18-25E CAGR (Edelweiss Est)	Our view on 3PL growth
Automotive components	26%	5-6%	14-15%	Auto-components industry is highly fragmented and manufacturing locations tend to be closer to OEM manufacturing locations. The need for 3PL arises as most OEMs now rely on Just-in-time approach and avoid stock of auto-components. Hence, the JIT delivery deadline become extremely critical. Auto-comps industry is expected to clock ~10% CAGR, but since 3PL penetration is around 60%, there is scope for 3PL growth in this vertical to be around 14-15%.
Cars and UVs	17%	4-5%	18-20%	Transportation is dominant is this vertical's 3PL activities (nearly 80%) with inbound and outbound logistics having similar share. In bound logistics has large scope to grow for 3PL as still under penetrated
Two and three wheelers	13%	4-5%	13-15%	Logistics costs typically account for 5-6% of the industry's turnover and 3PL outsourcing is at a medium level as per industry sources. We expect moderate 3PL growth of 13-15% CAGR in this vertical
Consumer durables and FMCG	5%	5-7%	24-26%	These verticals are expected to grow at 11-13%, however these are dominated by C&F which manage the regional/local warehouses. As a result, 3PL outsourcing is low and hence has high potential. GST is expected to increase share of 3PL players, due to warehouse consolidation and need for organized service providers in transportation. Hence, we expect the 3PL market to grow at 24-26% CAGR
E-commerce	16%	9-10%	28-30%	E-com in India is expected to clock 25%+ CAGR. Major e-retailers prefer to set up warehouses close to demand centers. However, last mile delivery accounts for a considerable share in the total logistics expense and hence transportation cost comprises approximately 65-70% of an e-retailers supply chain management cost. The scope for growth in 3PL is high as scaling up in-house logistics service is challenging and time-consuming, given that infrastructure in India is still developing. Over the past few years, 3PL service providers have developed solutions to cater specifically to the e-retail industry in order to achieve shorter delivery times
Organized retail	8%	5-6%	25-30%	While outsourcing of logistics functions is a standard practice, the market share of 3PL services in the industry is relatively lower. Typically, the outbound logistics costs are higher than in-bound logistics costs, considering last mile delivery of final products to various stores and outlets and high replenishment cycles as compared to other sectors. For the same reason, transportation costs are typically higher than warehousing costs for the sector. there is significant scope for increased 3PL usage within the sector as organized retail service providers are increasingly demanding better supply chain management and exceptional logistics practices to compete effectively. The potential for value-added services is also high as activities such as packaging, labeling, quality control, among others, are increasingly outsourced in order to focus on core business activities of procurement and sales.

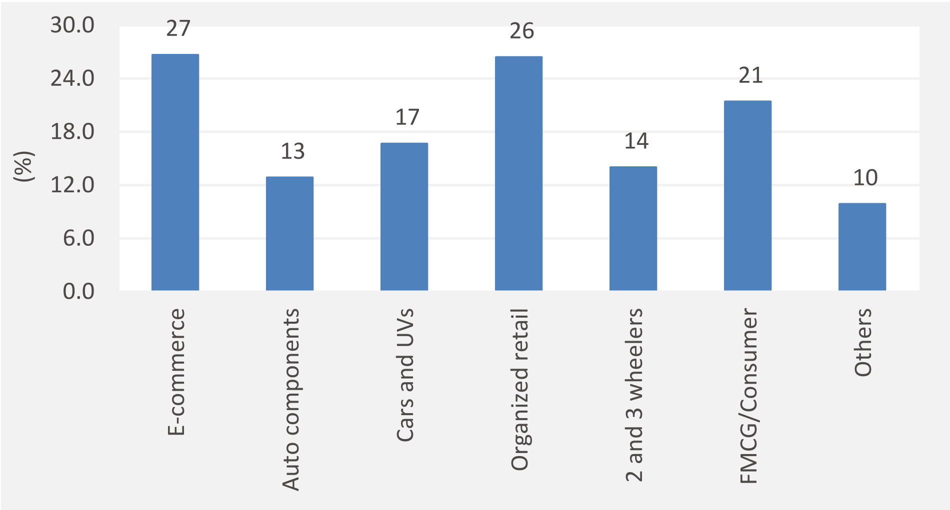
Source: Company; Edelweiss research

Chart 5: User industries for 3PL sector



Source: Edelweiss research

Chart 6: 3PL user industries' expected CAGR for next five years

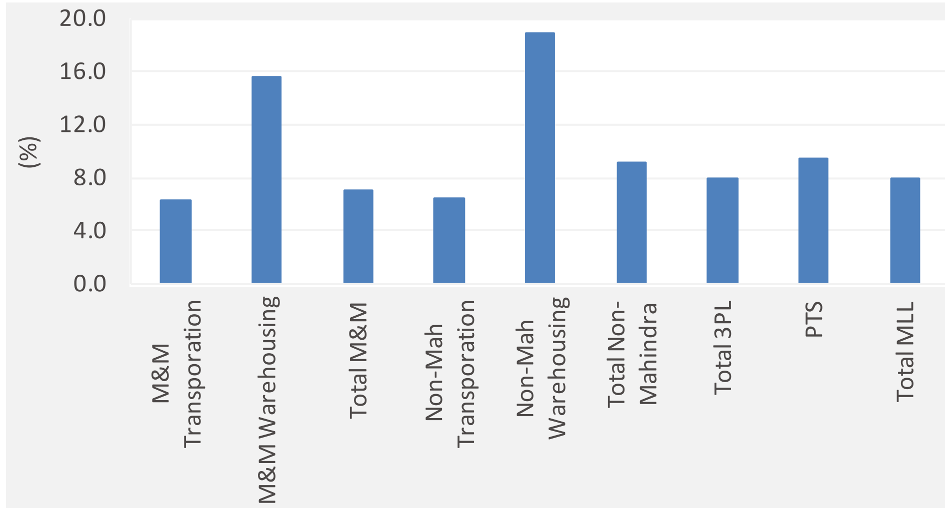


Source: Edelweiss research

Improving warehousing mix critical to profitability

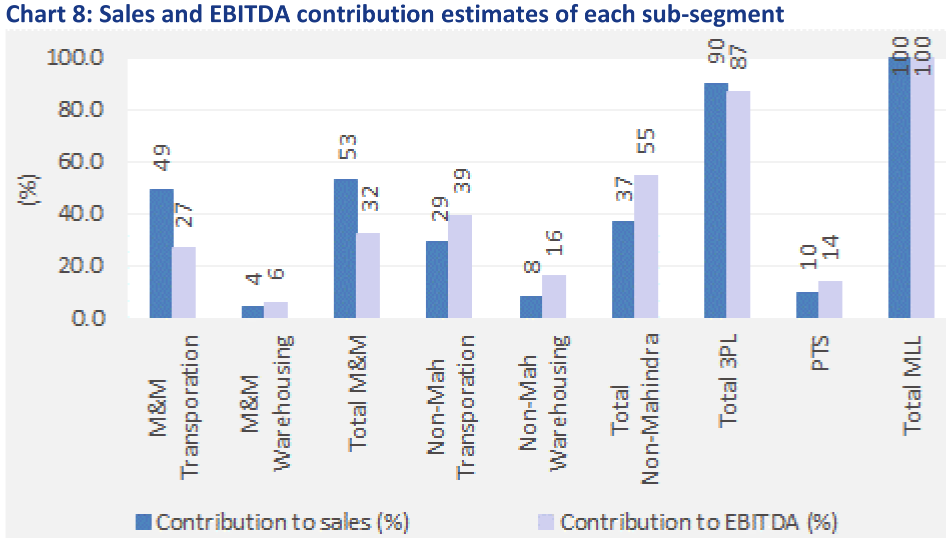
Overall, the auto sector accounts for nearly 80% of MLL's 3PL segment sales. This is largely due to the anchor client and the subsequent auto clients it targeted. In auto logistics, the larger part is transportation, which typically commands lower margin than warehousing. Since MLL is now aggressively targeting other sector such as organised retail, MLL will be able to provide more warehousing solutions, which yield higher margins. We believe this is likely to improve MLL's mix without at any incremental investments, which should improve its RoCE.

Chart 7: Gross margin estimates of each sub-segment



Source: Edelweiss research

Chart 8: Sales and EBITDA contribution estimates of each sub-segment



Source: Edelweiss research

Valuation

We are initiating coverage on MLL with 'BUY' recommendation and one-year target price of INR640, based on our three-stage DCF methodology. The huge multi-year opportunity for 3PL services in India demands a more fundamental framework to capture the potential value of leading 3PL companies such as, MLL. Thus, we have valued MLL on a DCF basis, which yields a target price of INR640. At CMP, the stock is trading at a PE of 31x on our FY20E EPS estimate.

In our DCF model, we have assumed WACC of ~13% and terminal growth of ~6%. We have assumed explicit earnings till FY21E. For FY22–25E, we have assumed an EBITDA CAGR of 20%. For the third stage (FY26–30E), we have assumed an 18% EBITDA CAGR. For FY18–28E overall, our DCF factors in ~21% EBITDA CAGR.

Table 2: DCF valuation for MLL

WACC	%	13%
Terminal growth rate	%	6%
Discounted FCF for FY19-30	INR mn	16,486
Terminal value	INR mn	93,671
PV of terminal value	INR mn	27,503
Enterprise value	INR mn	43,989
Net debt/(cash)	INR mn	(1,516)
Equity value	INR mn	45,505
Fair value target price	INR/sh	640

Source: Edelweiss research

Table 3: Sensitivity of TP to WACC and terminal growth rate

Terminal growth (%)		WACC (%)				
		11%	12%	13%	14%	15%
	3%	673	583	512	455	408
	4%	736	628	545	479	427
	5%	822	686	586	510	450
	6%	943	764	640	548	478

Source: Edelweiss research

Current valuations imply an achievable EBITDA CAGR of 17.5%

Though MLL's current PE multiples appear to be high (justified in a way given potentially high earnings growth over the next two years), it may not be an appropriate framework to assess these multi-year compounding opportunities in our view. We believe a better way is to look at implied earnings growth that current valuation factors in through the next decade. Thus, below we look at implied earnings growth over FY18–28E that is built in current valuation. We highlight that MLL's current valuation factors in an achievable EBITDA CAGR of 17.5% through FY28E while we believe the company could deliver 20-21% earnings CAGR over the period.

Chart 9: Current valuation factors in 18% EBITDA CAGR over FY18–28E

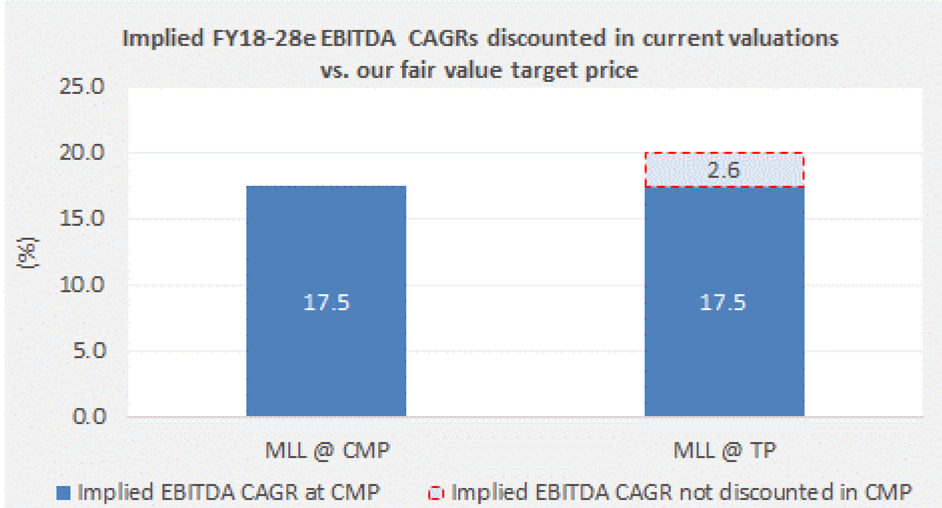


Chart 10: MLL's track record supports our base assumption of EBITDA growth

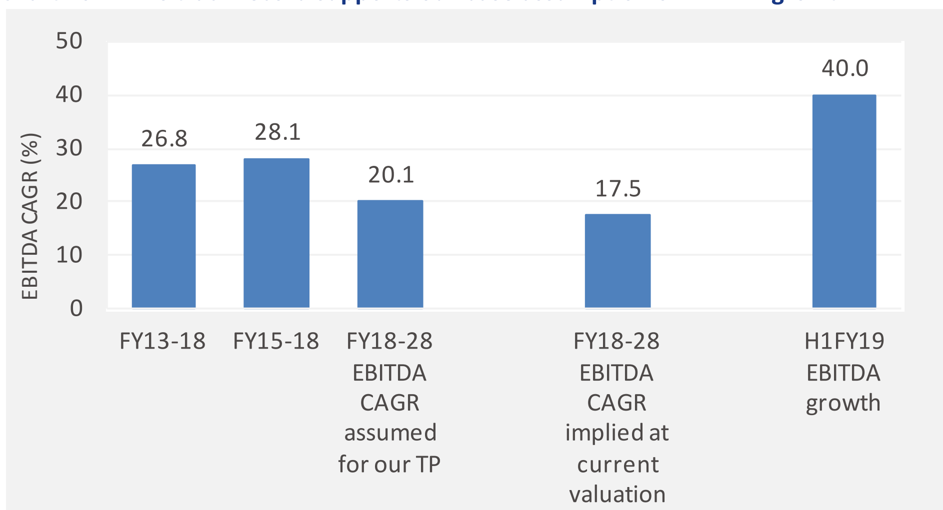
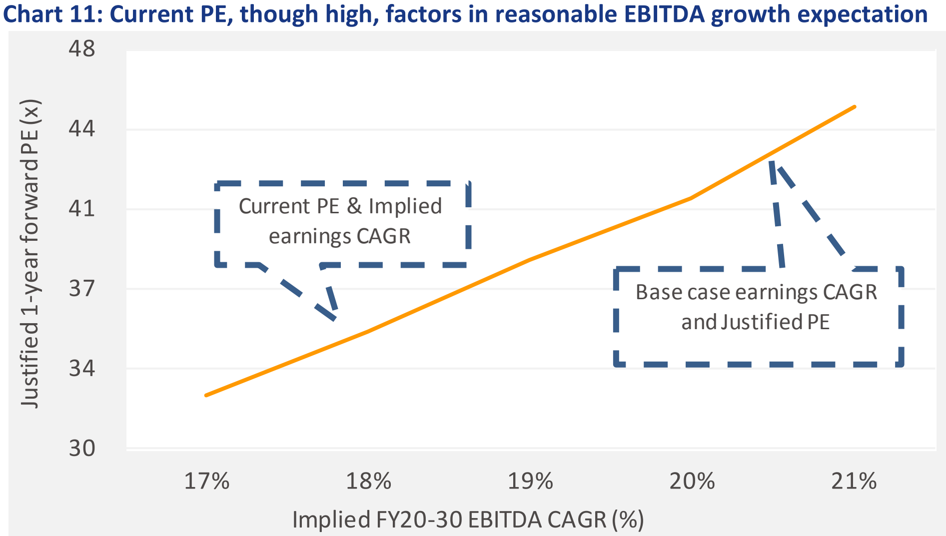


Chart 11: Current PE, though high, factors in reasonable EBITDA growth expectation



Source: Edelweiss research

Key Risks

The automobile sector accounts for a lion's share of 3PL sales in India. Any large slowdown in this sector would adversely impact MLL's growth.

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis.

Our growth assumptions are based on MLL aggressively growing its non-Mahindra business. Slower-than-expected growth in this segment is another downside risk.

Financial Outlook

Growth momentum likely to extend

MLL clocked a consolidated revenue CAGR of ~21% during FY15–18, and we estimate it will deliver 14-15% annual growth over FY18–20. We expect significant boost from the 3PL segment, which we estimate to grow 15% annually during FY18–20. We believe the PTS segment, which accounts for ~12% of FY18 revenue, will grow around 14% over FY18–20E.

EBITDA to grow ~23% over FY18–21E driven by strong SCM

Consolidated EBITDA posted CAGR of 28% over FY15–18. We believe EBITDA will continue to grow at a similar rate through FY21 driven by strong growth in the SCM segment as users move to outsourced logistics and integrated 3PL providers. We expect margin expansion of 50-70bps driven by two factors: 1) operating leverage; and 2) change in mix towards more warehousing services which have higher margins

Chart 12: We expect healthy sales growth of 13-15% at the group level

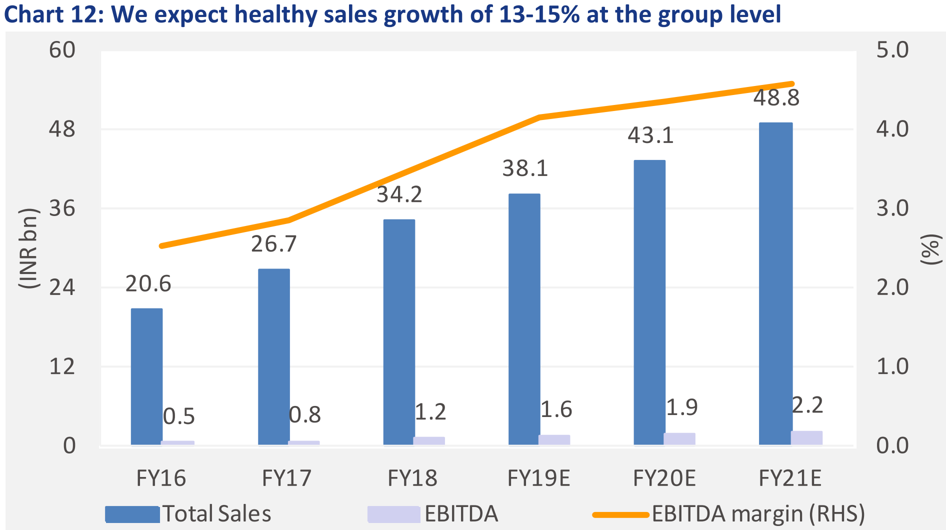
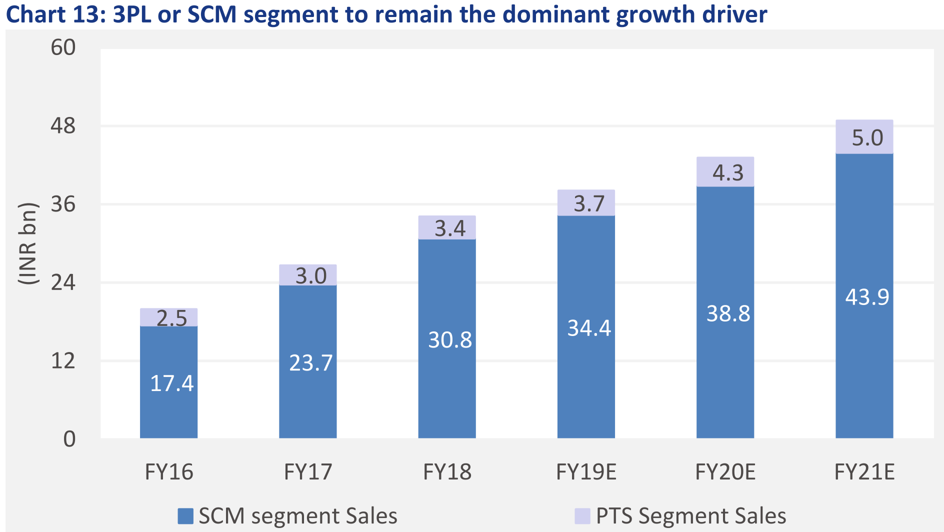


Chart 13: 3PL or SCM segment to remain the dominant growth driver



Source: Edelweiss research

Chart 14: Improvement in RoE expected as profit ramps up

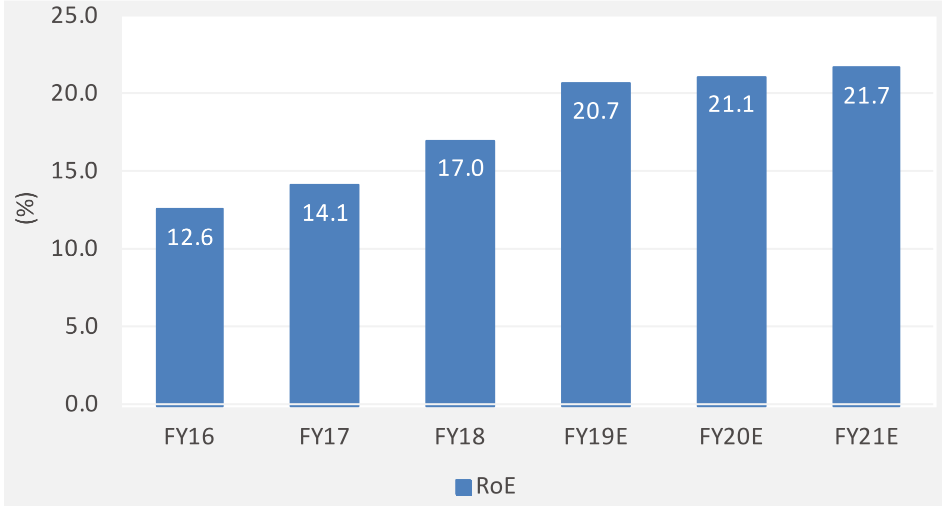
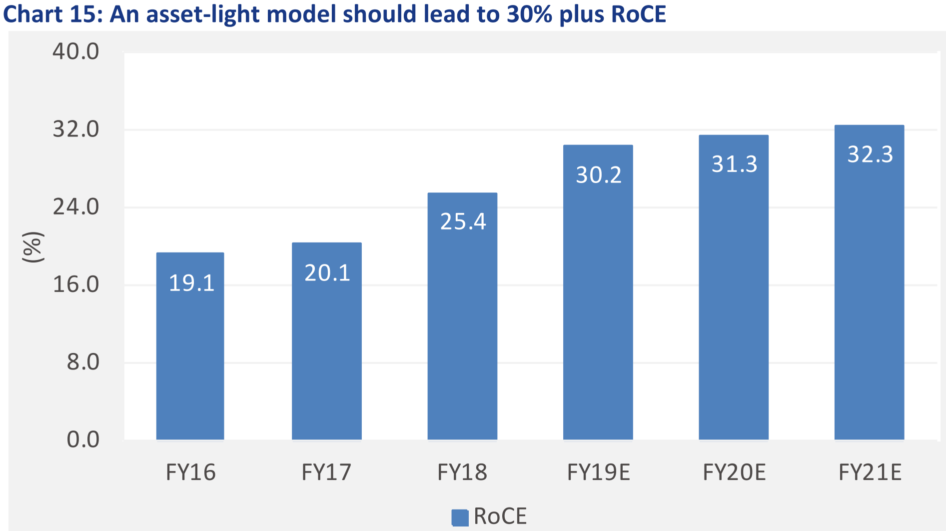


Chart 15: An asset-light model should lead to 30% plus RoCE



Source: Edelweiss research

Company description

MLL is one of India's largest 3PL solutions providers. The company was incorporated in 2006 as a captive logistics arm of the Mahindra Group, which continues to be MLL's anchor client accounting for ~60% of turnover. MLL's business model is based on providing end-to-end logistics solutions spanning from in-factory logistics to transportation and warehousing. MLL operates an 'asset-light' business model; it partners vehicle and warehouse owners for transportation and storage operations.

MLL also has a People Transportation Segment (PTS), ~10% of sales, which provides employee transportation services to corporates. This segment too has an asset light model by partnering with vehicle owners.

Fig. 4: 3PL is key business with a mix of anchor and external clients

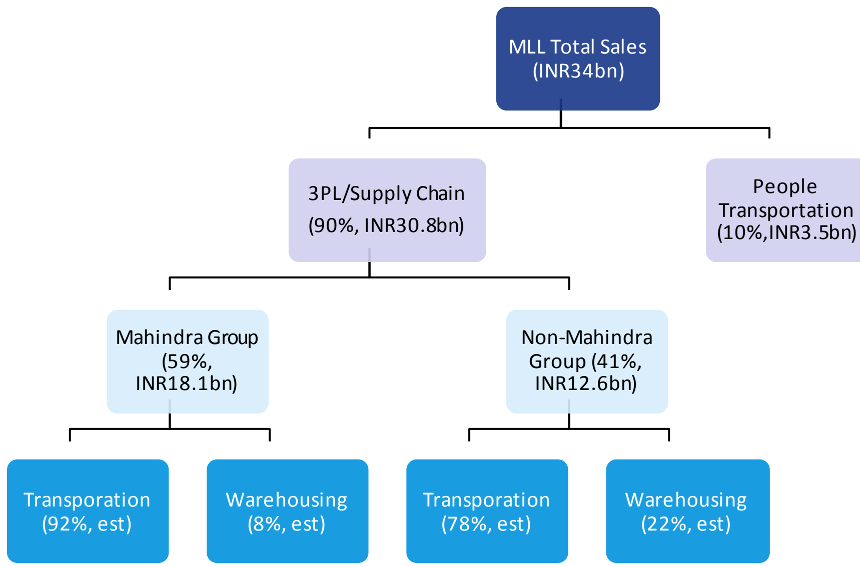


Chart 16: 3PL segment's sales and gross margin

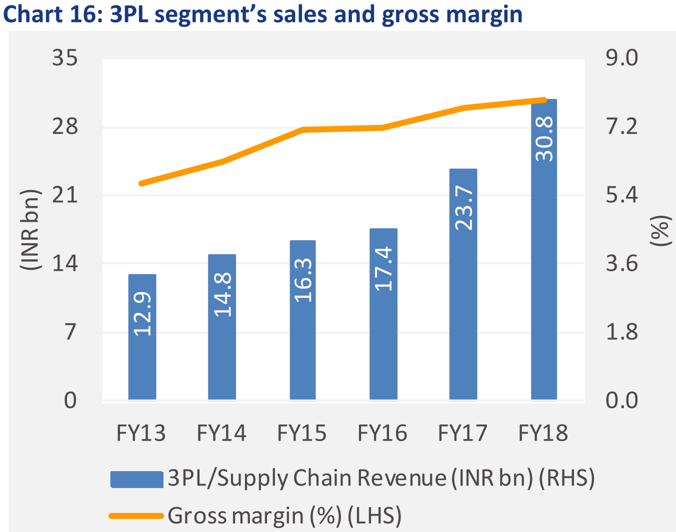
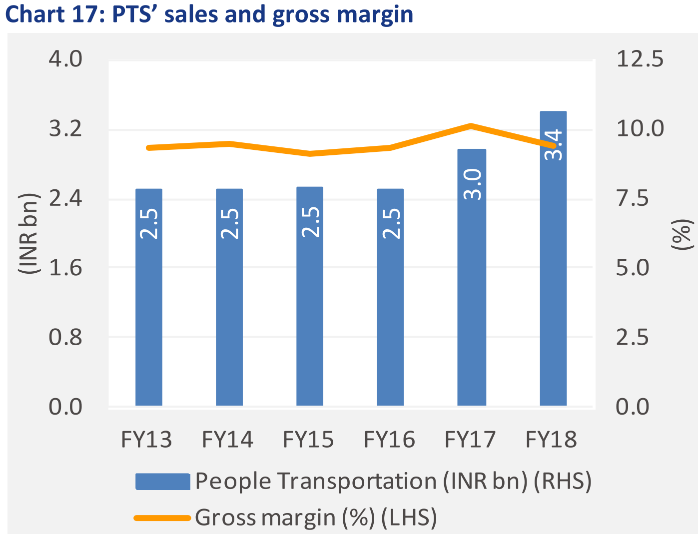


Chart 17: PTS' sales and gross margin



Source: Company, Edelweiss research

Management overview

Table 4: Management overview

Key personnel	Profile
Mr. Pirojshaw Sarkari	Mr. Pirojshaw Sarkari, 51, is the Chief Executive Officer of Mahindra Logistics. He graduated from the University of Mumbai in 1987 with a Bachelor of Commerce and is a qualified Chartered Accountant. Prior to joining Mahindra Logistics, he served as a managing director in UPS Jetair Express Private Limited and UPS International Incorporated, Philippines. He joined Mahindra Logistics on 1 April, 2010.
Mr. Sushil Rathi	Mr. Sushil Rathi, 54, is the Chief Operating Officer of Mahindra Logistics. He currently manages the supply chain management business. Mr Rathi holds a Bachelor of Mechanical Engineering from Maulana Azad College of Technology, Bhopal University, and a Post-Graduate Diploma in Industrial Engineering from the National Institute for Training Industrial Engineering. Prior to joining Mahindra Logistics, he worked with Anantara Solutions Private Limited. He joined Mahindra Logistics on 21 March, 2011.
Mr. Yogesh Patel	Mr. Yogesh Patel has over 20 years of experience across the Finance function, including FP&A, Accounting & Controllership, Pricing & Commercial Structuring, Procurement, Contracting, Treasury & Fund Management, Auditing and Statutory Compliances. A Chartered Accountant and a Bachelor of Commerce from the Kolkata University, Yogesh was associated with HCG as CFO, E&Y as a Director-Finance; Wipro as Vice President – Finance and IBM as Country Finance Planning Manager. He joined Mahindra Logistics on 20 August, 2018.
Ms. Rama Malik	Ms. Rama Malik, 46, is Vice President – People Transport Solutions of Mahindra Logistics. She holds a Bachelor of Arts from the University of Mumbai and graduated from the University of Pune in 1994 with a Master of Business Administration. Ms Malik has previously worked with Hindustan Unilever (formerly known as International Bestfoods), Kodak India Limited and Writer Relocations, India. She joined Mahindra Logistics on 2 November, 2015.
Mr. Neeraj Balani	Mr. Neeraj Balani, 41, is Vice President – Business Development. He holds a Bachelor of Chemical Engineering from the University of Mumbai and graduated from the University of Georgia in 2008 with a Master of Business Administration. He has previously worked with Capgemini India Private Limited, HCL Technologies Limited, Saora Incorporated and Unidyne Energy. He has completed a program on Mahindra Universe from Harvard Business School, Boston. He joined Mahindra Logistics on 16 February, 2015.
Mr. Shantanu Roy	Mr. Shantanu Roy, 41, is the General Manager of Mahindra Logistics. He graduated from the National Institute of Technology, Warangal, Andhra Pradesh (formerly known as Kakatia University), in 1997 with Bachelor of Technology in Metallurgical Engineering. He has also completed an Executive Program in Management from the Center for Executive Education, UC Berkeley. Prior to joining Mahindra Logistics, he has worked with Infosys Limited, i2 Technologies India Private Limited, Stragure Software Technologies Limited, Aditi Technologies Private Limited and Citicorp Information Technology Industries Limited (now known as Oracle Financial Services). He joined Mahindra Logistics on 2 November, 2015.

Table 5: MLL—Key milestones

Year	Milestones
2000	Formed with a focus on rural transportation; scope extended to warehousing, transportation of goods and corporate employees
2008	Incorporated as public limited company; focus shifts on building supply chain management facilities for auto and other industries with IT infrastructure deployment
2017	Largest IPO in the Indian logistics sector

Source: Edelweiss research

Financial Statements

Key assumptions

Year to March		FY18	FY19E	FY20E	FY21E
Macro	GDP(Y-o-Y %)	6.7	7.3	7.6	7.6
	Inflation (Avg)	3.6	4.5	5.0	5.0
	Repo rate (exit rate)	6.0	6.8	6.8	6.8
	USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector					
3PL industry growth(%)		19.0	19.4	19.9	16.7
3PL industry size (USD bn)		5.5	6.5	7.8	9.1
Company					
Transportation - Mahindra (INR mn)		16,721	19,062	21,540	24,340
Warehousing - Mahindra (INR mn)		1,459	1,722	1,980	2,277
Transportation - Others (INR mn)		9,812	10,107	11,117	12,229
Warehousing - Others (INR mn)		2,768	3,487	4,185	5,022
PTS revenue (INR mn)		3,405	3,745	4,307	4,953
Segmental sales growth (%)					
SCM sales growth (%)		29.7	11.8	12.9	13.0
PTS sales growth (%)		15.4	10.0	15.0	15.0
Segmental EBITDA margins (%)					
SCM EBITDA margin (%)		3.6	4.0	4.2	4.4
PTS EBITDA margin (%)		5.1	5.3	5.5	5.8
Cost and financial assumptions					
Gross margins (%)		8.0	8.5	8.9	9.2
Other expenses (%)		3.7	3.6	3.8	3.9
EBITDA margins (%)		3.5	4.2	4.4	4.6
Capex (INR mn)		(372)	(250)	(250)	(250)
Net borrowings (INR mn)		(899)	(1,516)	(2,303)	(3,320)

Income statement (INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Net revenues	34,161	38,123	43,129	48,821
Freight and COGS	31,423	34,897	39,308	44,324
Gross profit	2,738	3,225	3,821	4,497
Employee Benefit Expenses	262	288	317	348
Other expenses	1,279	1,355	1,623	1,912
Total expenditure	32,964	36,540	41,247	46,584
EBITDA	1,197	1,582	1,882	2,237
Depreciation & amortisation	197	219	264	309
EBIT	1,000	1,363	1,618	1,928
Less: Interest Expense	38	32	27	22
Add: Other income	59	116	174	249
Profit before tax	1,021	1,448	1,765	2,155
Provision for tax	368	492	600	733
Reported Profit	640	955	1,165	1,422
Adjusted Profit	640	955	1,165	1,422
No. of Shares outstanding (mn)	70.1	71.1	71.1	71.1
Adjusted Basic EPS	9.1	13.4	16.4	20.0
No. of Dilu. Sha. Outstand.(mn)	70.8	71.1	71.1	71.1
Adjusted Diluted EPS	9.0	13.4	16.4	20.0
Adjusted Cash EPS	11.7	16.5	20.1	24.3
Dividend per share (DPS)	1.5	2.1	2.6	3.2
Dividend Payout Ratio (%)	16.6	16.0	16.0	16.0

Common size metrics (% net revenues)

Year to March	FY18	FY19E	FY20E	FY21E
Gross margin	8.0	8.5	8.9	9.2
Other Expenses	3.7	3.6	3.8	3.9
EBITDA margins	3.5	4.2	4.4	4.6
EBIT margin	2.9	3.6	3.8	3.9
Interest	0.1	0.1	0.1	0.0
Net profit margin	1.9	2.5	2.7	2.9

Growth metrics (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	28.1	11.6	13.1	13.2
EBITDA	57.0	32.1	18.9	18.9
PBT	50.6	41.8	21.9	22.1
Adjusted Profit	40.4	49.3	21.9	22.1
EPS	34.8	48.6	21.9	22.1

Balance sheet				(INR mn)
As on 31st March	FY18	FY19E	FY20E	FY21E
Share capital	711	711	711	711
Reserves & surplus	3,485	4,330	5,275	6,430
Shareholder equity	4,196	5,041	5,987	7,141
Long term borrowings	181	143	105	67
Short term borrowings	81	81	81	81
Total Borrowings	262	224	186	148
Long Term Lia.& Provisions	148	148	148	148
Deferred Tax Liability (net)	(141)	(141)	(141)	(141)
Sources of funds	**4,534**	**5,272**	**6,179**	**7,296**
Gross Block	1,092	1,342	1,592	1,842
Net Block	605	636	622	563
Intangible assets and Goodwill	54	54	54	54
Total net fixed assets	664	695	681	622
Other non-current assets	1,232	1,232	1,232	1,232
Cash and cash equivalents	1,161	1,740	2,489	3,468
Sundry Debtors	5,200	5,797	6,558	7,423
Other Current Assets	1,461	1,560	1,685	1,827
Total Current Assets (ex cash)	6,662	7,357	8,243	9,251
Trade payable	4,863	5,431	6,144	6,955
Other CL & Short Term Provisions	322	322	322	322
Total CL & Provisions	5,185	5,753	6,466	7,277
Net Current Assets (ex cash)	1,477	1,604	1,777	1,974
Uses of funds	**4,534**	**5,272**	**6,179**	**7,296**
Book Value per share (INR)	60	71	84	100

Free cash flow

Year to March	FY18	FY19E	FY20E	FY21E
Reported Profit	640	955	1,165	1,422
Add: Depreciation	197	219	264	309
Add:Interest	25	21	18	15
Add: Others	(1,226)	(360)	(511)	(635)
Gross cash flow	(364)	836	936	1,111
Less: Changes in WC	(483)	(127)	(173)	(197)
Operating cash flow	119	963	1,109	1,307
Less: Capex	(372)	(250)	(250)	(250)
Free Cash Flow	**(253)**	**713**	**859**	**1,057**

Cash flow metrics

Year to March	FY18	FY19E	FY20E	FY21E
Operating cash flow	119	963	1,109	1,307
Financing cash flow	39	(249)	(284)	(327)
Investing cash flow	1	(134)	(76)	(1)
Net cash flow	159	579	749	979
Capex	(372)	(250)	(250)	(250)

Profitability ratios

Year to March	FY18	FY19E	FY20E	FY21E
Gross profit margin	8.0	8.5	8.9	9.2
EBITDA margin	3.5	4.2	4.4	4.6
Pre-tax Return on Capital Employed	25.4	30.2	31.3	32.3
Return on Average Equity (ROAE) (%)	16.7	20.7	21.1	21.7
ROA (%)	15.4	19.5	20.3	21.1
Current ratio	1.5	1.6	1.7	1.7
Quick ratio	1.3	1.3	1.3	1.3
Cash ratio	0.2	0.3	0.4	0.5
Receivable turnover (x)	5.8	6.2	6.2	6.2
Payables turnover (x)	6.3	6.7	6.6	6.6
Receivables (days)	62	59	59	59
Payables (days)	58	55	55	55
Cash conversion cycle (days)	4	4	4	4
Net Debt/Equity	(0.2)	(0.3)	(0.4)	(0.5)
Debt/EBITDA	0.2	0.1	0.1	0.1
Adjusted debt/Equity (x)	0.1	0.0	0.0	0.0
LT debt / Capital employed (%)	4.0	2.7	1.7	0.9
Total debt / Capital employed (%)	5.8	4.2	3.0	2.0
Interest coverage (x)	26.5	43.2	60.8	88.9

Operating ratios (x)

Year to March	FY18	FY19E	FY20E	FY21E
Total asset turnover	8.2	7.8	7.5	7.2
Fixed asset turnover	53.6	56.5	63.2	75.5
Equity turnover	8.8	8.2	7.8	7.4

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adjusted Diluted EPS (INR)	9.0	13.4	16.4	20.0
Adjusted Cash EPS (INR)	11.7	16.5	20.1	24.3
Diluted Price to Earnings Ratio (P/E)	57.6	38.8	31.8	26.1
Price to Book Ratio (P/B) (x)	8.7	7.3	6.2	5.2
Enterprise Value / Sales (x)	1.0	0.9	0.8	0.7
Enterprise Value / EBITDA (x)	29.8	22.5	18.5	15.1
Dividend Yield (%)	0.3	0.4	0.5	0.6

Additional Data

Directors Data

Pirojshaw Aspi Sarkari	CEO(KMP)	Parag Chandulal Shah	Director
Yogesh Patel	CFO(KMP)	Darius Dinshaw Pandole	Director
Zhooben Dossabhoy Bhiwandiwala	Director	Chandrasekar Kandasamy	Director
Ranu Vohra	Director	Ajay Natvarbhai Mehta	Director
Sunish Sharma	Director	Avani Vishal Davda	Director

Auditors - Deloitte Haskins and Sells LLP

*as per last annual report

Holding - Top 10

	Perc. Holding		Perc. Holding
Goldman Sachs Group Inc	2.11	DSP Investment Managers Pvt Ltd	1.82
Aditya Birla Sun Life Asset Manage	0.75	Birla Sun Life Insurance Co Ltd	0.70
UTI Asset Management Co Ltd	0.69	Invesco Asset Management India Pvt	0.68
Motilal Oswal Asset Management Co	0.58	Frostrow Capital LLP	0.42
Union Mutual Fund/India	0.32	Sundaram Asset Management Co Ltd	0.27

*as per last available data

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
4-Jun-18	Al Mehwar Commercial Invstments Llc Whiting	Buy	197087	565
4-Jun-18	Abu Dhabi Investment Council Whiting	Sell	197087	565

*as per last available data

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
6-Feb-18	Acquirer / Seller	Sell	15000
9-Mar-18	Kamal Kapoor	Sell	24,000
6-Sep-18	Rajesh Shrikrishna Shidore	Sell	20,000
6-Sep-18	Neeraj Balani	Sell	30,000
16-Nov-18	Pramod Nair	Sell	20,213
21-Nov-18	Begur Ravi Prakash	Sell	25,000

*as per last available data

India Midcaps

INITIATING COVERAGE

TCI EXPRESS

Value creation at express pace

India Equity Research| Logistics

Edelweiss
Ideas create, values protect

TCI Express (TCIE) is one of the leading surface express companies in India with 5% market share in the B2B space. In our view, the company is well-positioned for multi-year growth as it: 1) continues to be a beneficiary of the structural shift from air express to road express; 2) has all the right enablers in place to outpace peers; and 3) is gearing up for growth through the next decade with INR4bn worth of investment, which is likely to quadruple its sorting centre capacity. Initiate coverage on TCIE with 'BUY' and target price of INR765.

Well-positioned for market share gains and high-quality growth

TCIE has been a key beneficiary of a structural shift from air express to road express due to reducing transit times and huge price disparity between the two modes within the express market in India. TCIE's growth has thus accelerated over the past three–four years, and we expect its sales/EBITDA to increase at an accelerated CAGR of 15%/25% with a high-quality RoCE of 40% plus. The company excels on all the key factors needed for success in surface express such as a wide network of branches and sorting centres, a wide client base, an asset-light model and tech-based platforms.

Gearing up for the future

TCIE will invest about INR4bn over the next five years to quadruple its sorting centre capacity. This capex will be funded entirely from internal accruals; nonetheless, the company is expected to generate positive FCF. We believe this scale of capacity expansion will cater to TCIE's demand needs for the next eight–ten years, which should help it generate high FCF after the capex phase is over.

Outlook & valuations: Long compounding idea; initiate with 'BUY'

We value TCIE on DCF methodology in order to effectively size up the opportunity. We estimate it to deliver EBITDA CAGR of ~22% over FY18–25 vis-à-vis ~17% that the stock is pricing in, implying potential upside. Initiate with **'BUY'** and target price of INR765.

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	8,851	10,420	12,272	14,458
EBITDA (INR mn)	907	1,146	1,442	1,771
Adjusted Profit (INR mn)	584	692	861	1,056
Adjusted Diluted EPS (INR)	15.3	18.1	22.5	27.6
EPS growth (%)	55.7	18.5	24.5	22.6
P/E (x)	40.0	33.8	27.1	22.1
EV/EBITDA (x)	26.1	20.8	16.6	13.5
ROACE (%)	46.2	43.8	41.8	41.0
ROAE (%)	31.8	29.6	29.3	28.6

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: TCIE, B: TCIEXP IN)*

CMP	: INR 610
Target Price	: INR 765
52-week range (INR)	: 736 / 425
Share in issue (mn)	: 38.3
M cap (INR bn/USD mn)	: 24 / 330
Avg. Daily Vol. BSE/NSE ('000)	: 31.0

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	67.0	67.0	66.1
MF's, FI's & BKs	5.5	5.3	6.2
FII's	3.8	0.0	0.0
Others	23.8	27.7	27.7

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	3.1	2.7	(0.4)
3 months	(8.2)	(12.8)	(4.6)
12 months	4.9	4.8	(0.1)

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November 26, 2018

Investment Rationale

All essentials in place for a scale up

We see the domestic road express segment (USD2bn in size) as one of the most attractive in the Indian logistics sector as the shift from air express to road express can continue for a while. We estimate the road express segment to expand at 17–18% CAGR to more than USD6bn by FY25. Our framework for identifying winners within this segment comprises growth strategies and essential enablers. We believe that TCIE has all the right attributes to scale up over the next five-seven years.

- ✓ **Growth strategies**
  - Targeting a wide base of B2B clients (large and MSMEs)
  - Targeting air express B2B clientele
- ✓ **Enablers to execute strategies**
  - Extensive network of branches and sorting centres
  - Robust tech-based back-end
  - Ability to operate an asset-light model for scaling up

Fig. 1: 'RIGHT TO WIN' in Indian surface express market

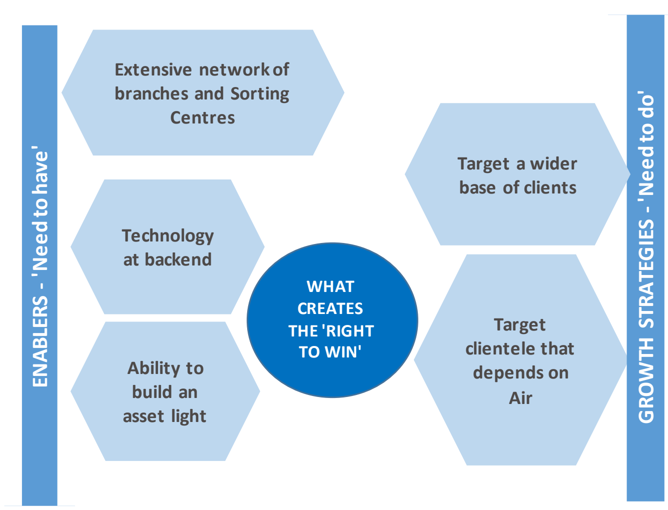
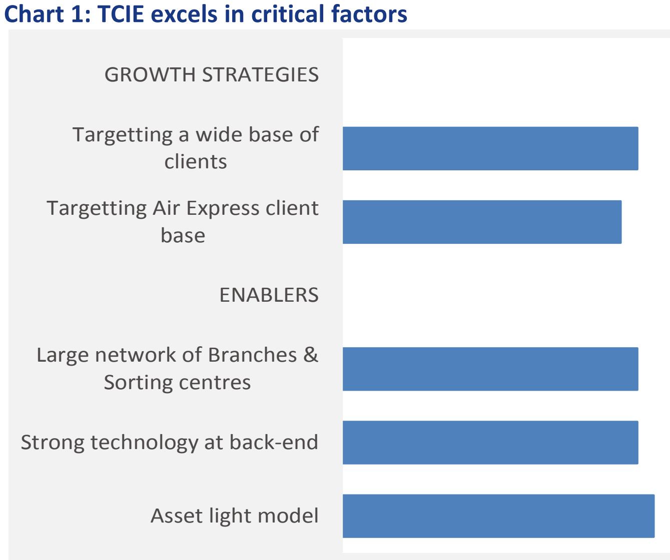
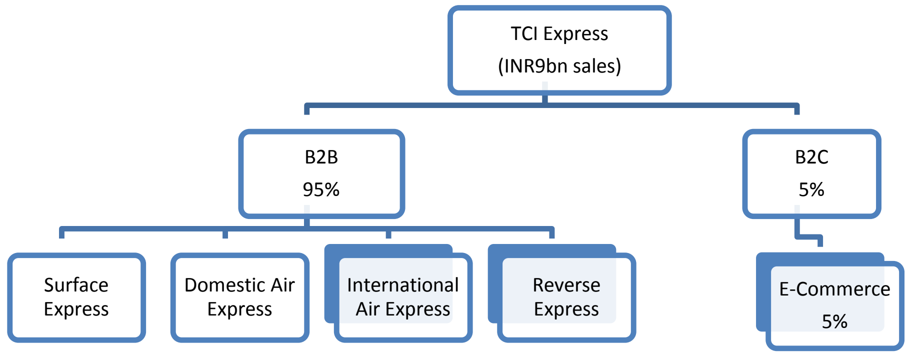


Chart 1: TCIE excels in critical factors



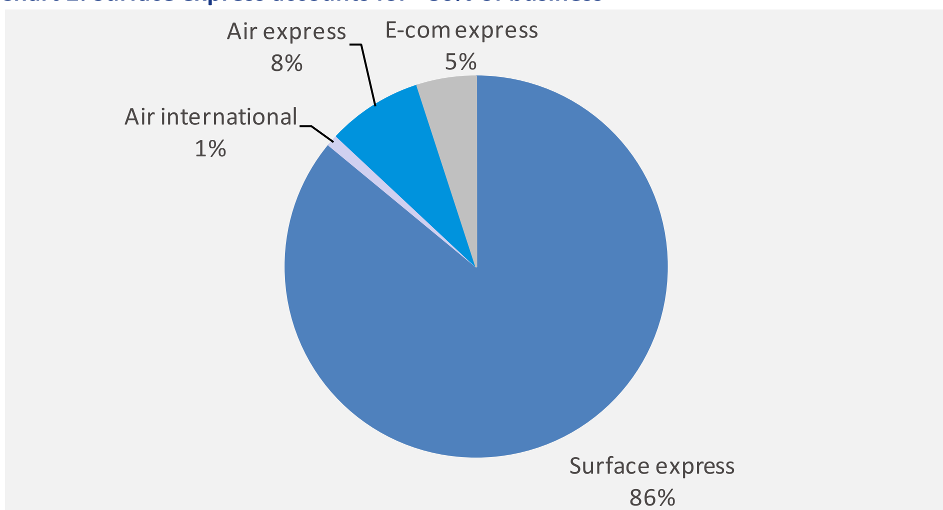
Source: Edelweiss research

Fig. 2: Key business segments



Source: Company, Edelweiss research

Chart 2: Surface express accounts for ~86% of business



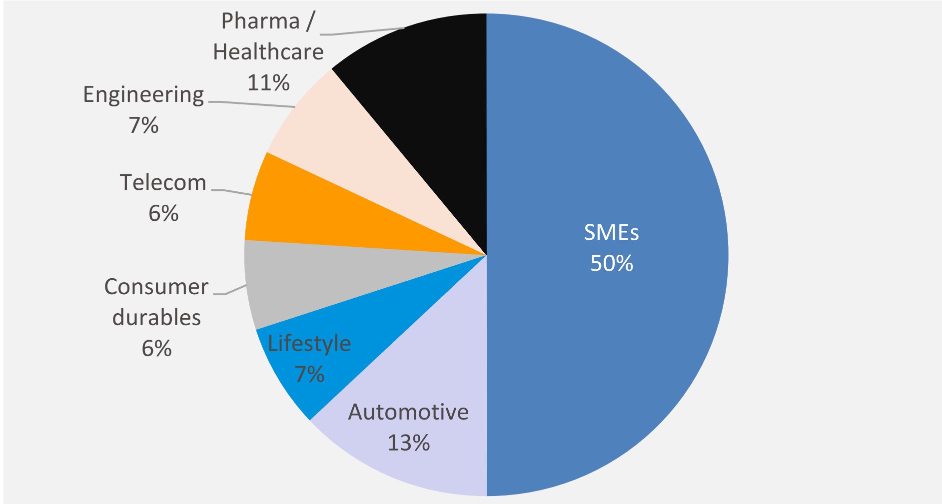
Source: Company, Edelweiss research

Targeting a wide base of clientele

Our research indicates that one of the key growth strategies in the express segment is to have a wide base of clients. Typically, a large base of corporates provides steady annuity business while a sizeable base of MSMEs provide growth kicker. In this regard, we believe that TCIE is exceptionally placed as it has a wide client base in large corporates as well as MSMEs. Currently, 50% of TCIE's turnover comes from a variety of large corporates and the other 50% from almost 500 MSMEs.

Note that MSMEs are the key growth contributors to the express industry as these have registered double-digit growth over the past seven–eight years. There is a direct correlation between MSMEs' growth and the express industry growth; the latter has grown at more than 2x the real GDP over the past seven–eight years.

Chart 3: Varied client mix is TCIE's key strength



Source: Company presentation

Table 1: TCIE's large corporate clients

Automobile	Pharma	Electrical / Energy	Retail	Telecom and engg.	e Com
Hero	Dr. Reddy's	BHEL	Jockey	Nokia	Flipkart
Tata	Micro Labs	Havells	ITC	Xiaomi	Shopclues
Maruti Suzuki	Cipla	Cummins	Adidas	Siemens	Home Shop 18
Toyota	Intas	Panasonic	Reebok	NRB	Naaptol
Eicher	Neon Laboratories	Larsen & Toubro	Arvind	Spirax	Oyo
Force	Allergan	Yokogawa	Raymond	Meritor	Shop CJ
Ford	Abbott	ABB	Lifestyle	OiSGES	Emetex Machinery
TVS	Zydus Cadia	Kirloskar	Siyaram's	TE	Infibeam

Source: Company presentation

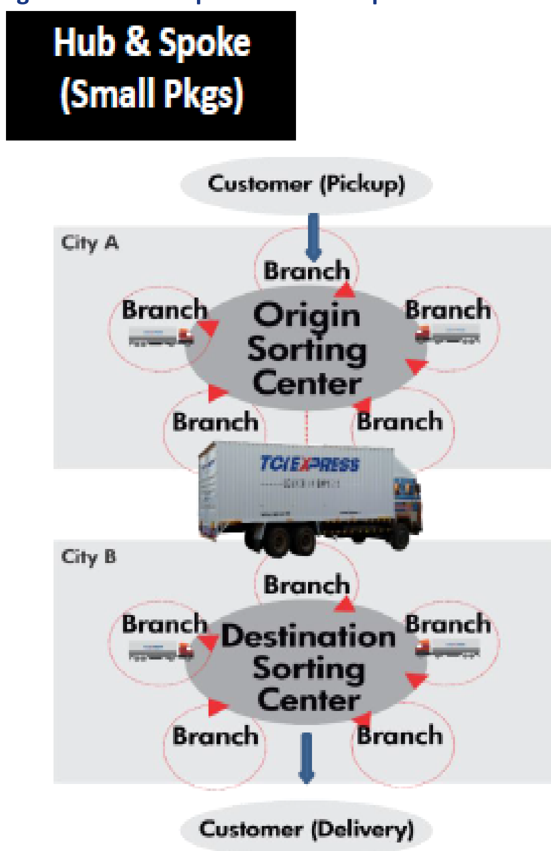
Positioned to capture demand shift from air express

We understand a structural shift from air express to road express is underway and expected to continue. Improving road infrastructure and reducing transit times are driving this shift. Over the past six—seven years, we estimate that nearly 7–8% of the demand or market has shifted from air express to road express. We believe TCIE has placed itself well to take advantage of this shift considering road express can expand at CAGR of 17–18% through FY25E, while air express growth to stay clipped in a 5–6% range.

Extensive network of branches and sorting centres

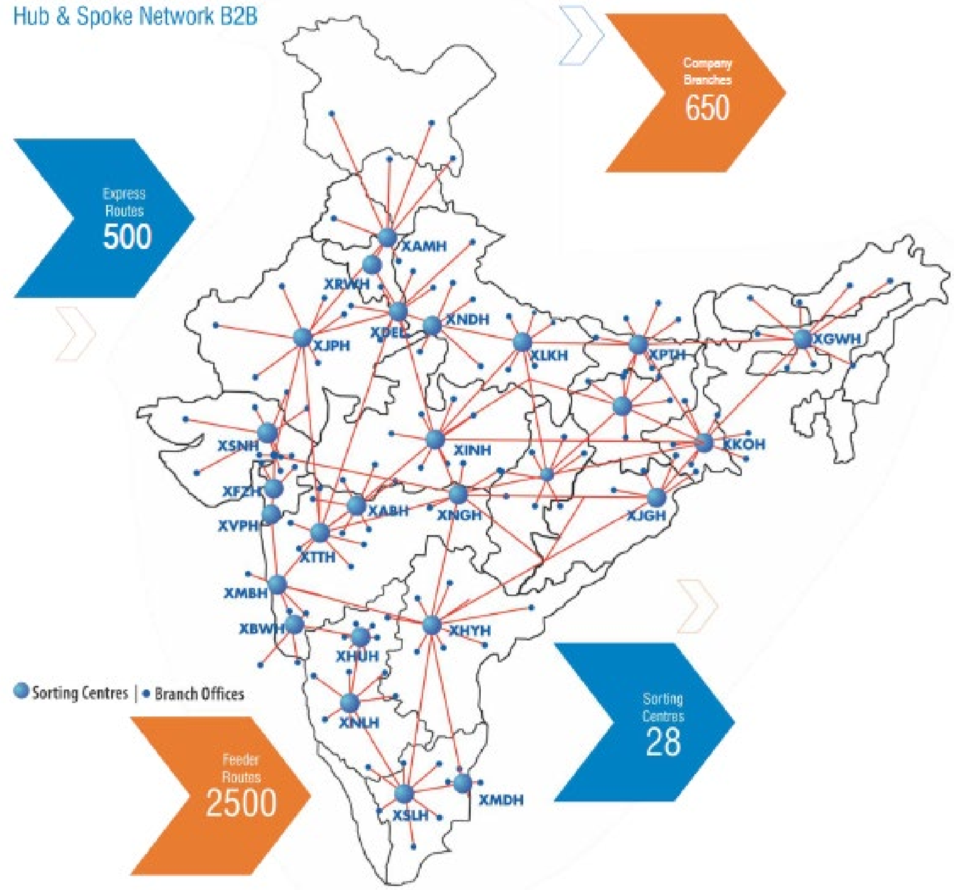
TCIE has a large network of branches and sorting centers spread across India, which is essential to high utilisation. To be precise, the company has 650 branches and 28 sorting centres, implying a branch in every Indian district and a sorting centre in every Indian state. Around 2,500 feeder routes provide TCIE with nearly 40,000 pick-up points, which makes it one of the largest road express networks in India.

Fig. 3: How the express hub-and-spoke model works



Source: Company presentation

Fig. 4: TCIE has strong network of branches and sorting centres



Source: Company presentation

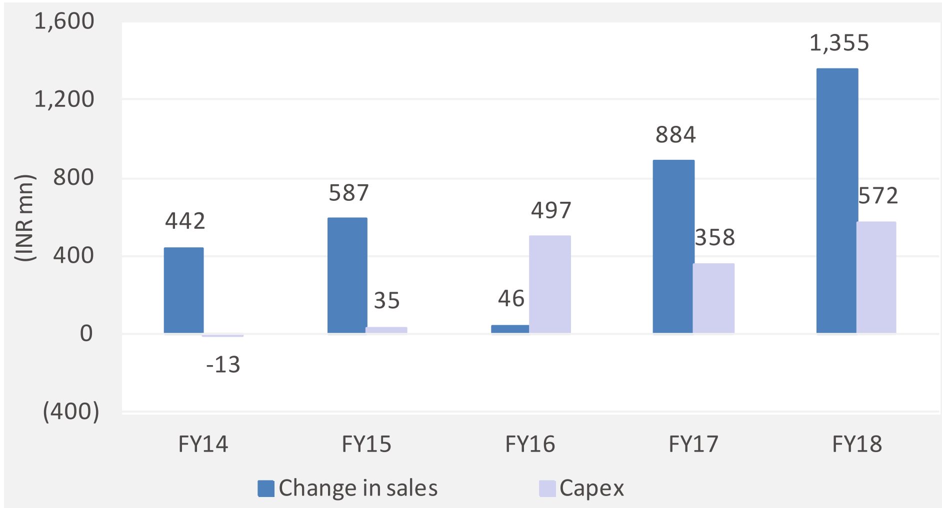
Asset-light model, easier said than done

TCIE's boasts an asset-light model with focus on partnering vehicle owners for its fleet. Dependable vehicle partners are critical as the express business entails time-bound deliveries, which are not possible without timely departures from each location.

While an asset-light model looks like a model that can be developed easily, our checks suggest that vehicle owners are generally reluctant to partner a company unless a certain level of business or utilisation is assured. As a result, this is an important barrier to entry.

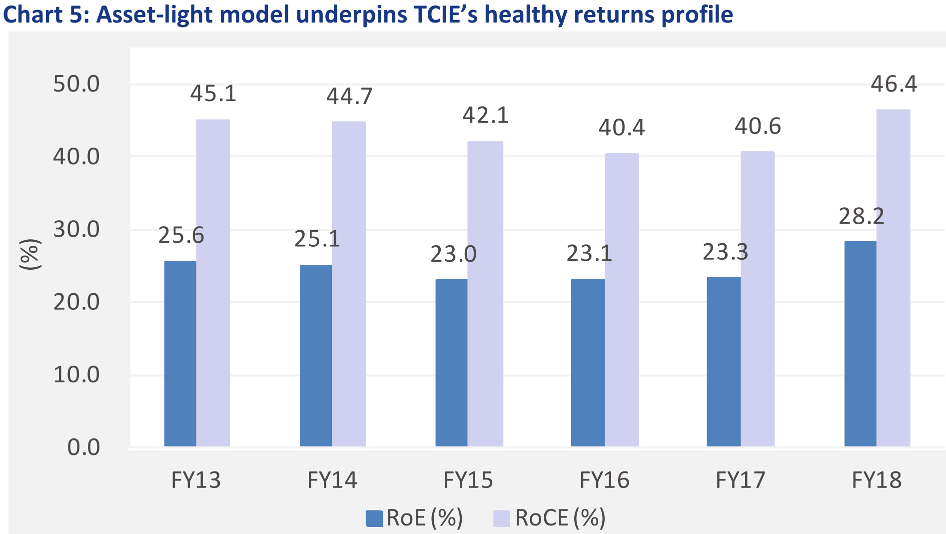
TCIE currently has a fleet of 4,500 contracted vehicles (1,600 inter-state, 1,000 intra-state and 1,900 intra-city), thereby managing about 2,000 vehicle owners (due to fragmented ownership in India). This ability to manage relationships with such a fragmented base of vehicle owners is a distinct advantage, in our view. TCIE operates on a per km-based cost model, which makes it easier to control cost and pass them through.

Chart 4: TCIE operates asset-light model; capex in the next past two years is for gearing up the capacities in sorting centres for the next five to seven years



Source: Company, Edelweiss research

Chart 5: Asset-light model underpins TCIE's healthy returns profile

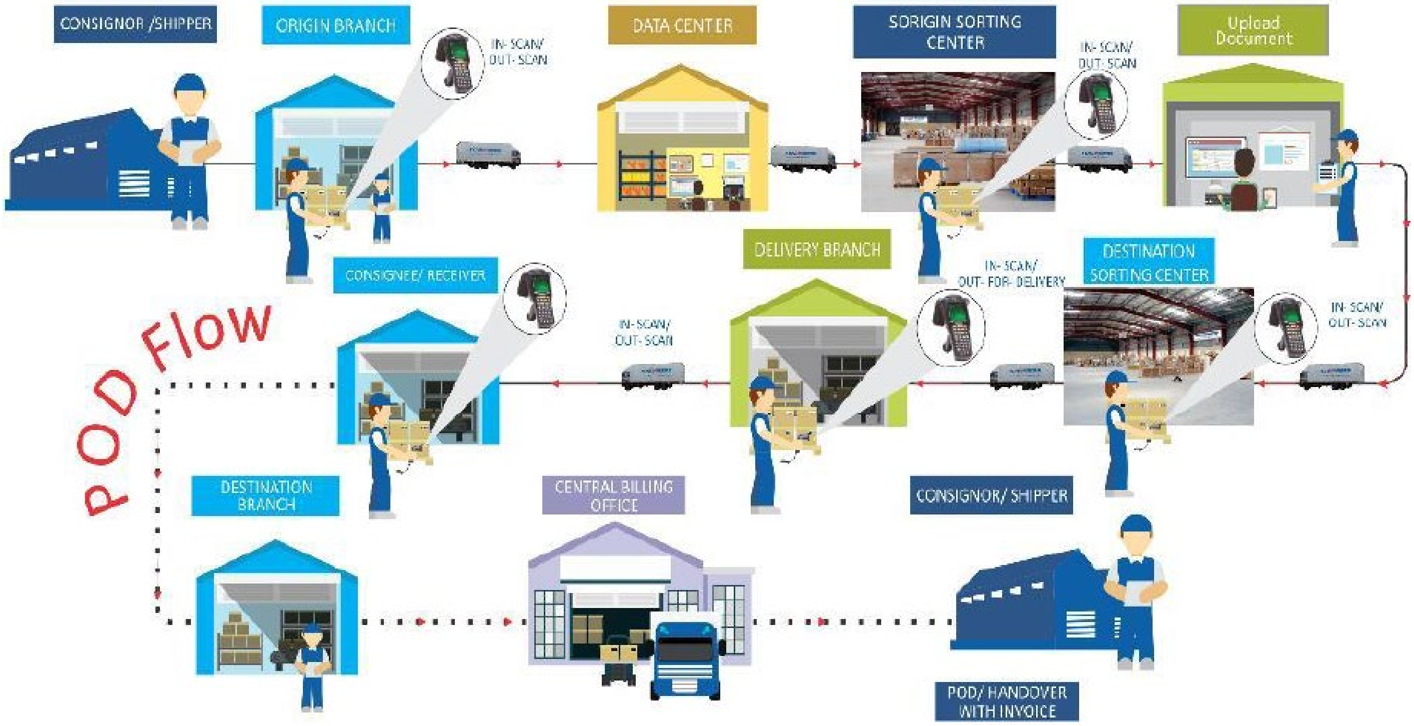


Source: Company, Edelweiss research s

Technologically advanced back-end another differentiating factor

The express market relies on technology both for vehicle GPS tracking and stock or inventory monitoring at branches and sorting centres. Our research shows that TCIE has robust technology back-end with high-end GPS trackers in all its partnered vehicles, bar coding mechanism in sorting centres, mobile apps for customers and high surveillance at sorting centers.

Fig. 5: A typical flow chart of how the billing happens



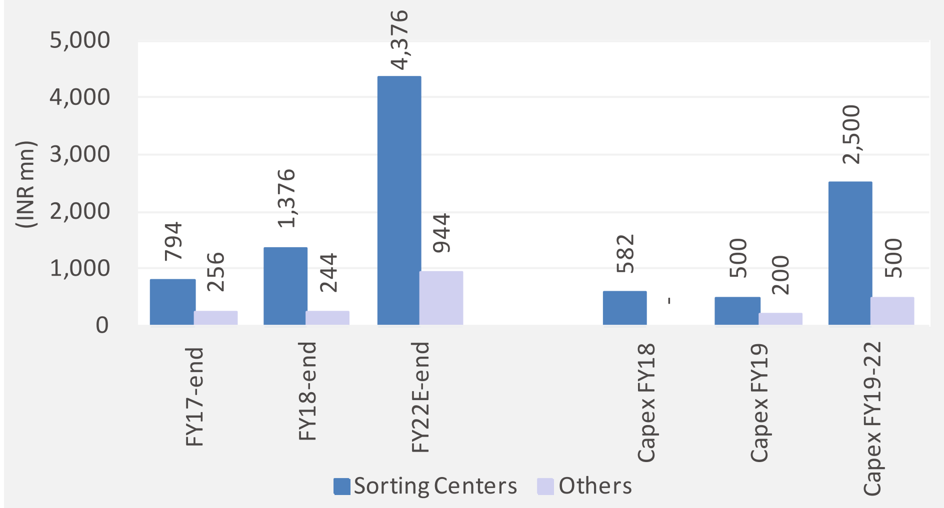
Source: Company, Edelweiss research

Gearing up for next decade via capacity expansion

Even as the operating model remains asset light with very little need for regular capex, TCIE has embarked on a significant investment path since FY18 to gear itself up for the capacity needed over the next 10 years. The overall capex plan over FY18-22 is expected to be ~INR4bn, with the bulk (INR3.5bn) for capacity expansion of its sorting centres (quadrupling at many). This investment will be funded entirely from internal accruals, i.e. without any debt. Currently, TCIE owns eight of the total sorting centres that it operates. Over the next four-five years, it will be owning eight more sorting centres and the capex will be primarily directed towards this.

While part of this investment is necessary as the business is growing strongly, even as a future strategy the timing for expansion is right in our view given the structural shift from air express to road express over the past four–five years. We believe that post-FY21E, FCF generation will be extremely strong. Historically, TCIE has had asset turn of nearly 15–16x; going by this ratio, this capex of INR4bn will drive up sales to INR50–60bn in the latter half of the next decade.

Chart 6: Large capex to quadruple sorting centre capacity



Source: Company, Edelweiss research

Leading player, supportive backdrop

TCIE is among the leaders in the B2B road express segment in India with a market share of about 5%. We believe that current sector dynamics are extremely favourable with a CAGR of 17–18% expected over the next five years. We expect the road express segment, currently at USD2bn, to cross USD6bn by FY25E driven by growth in MSMEs and a structural shift from air express.

Key drivers and competitive landscape conducive to growth

India's express industry is going through a transformation, wherein some emerging trends should continue to drive demand over the next five years, in our view. We expect e-commerce, manufacturing and MSMEs to be the key demand drivers, while technology and logistical infrastructure will be key enablers for market expansion.

1. E-commerce, documents to packets and emergence of new demand centres

- **Internet penetration:** The number of internet users in India has risen at 27% CAGR over the past five years led by expanding internet penetration from 11% in FY12 to more than 30% currently. According to industry estimates, internet penetration is expected to touch 50% over the next five years.
- **Documents to packets:** The traditional model–documents accounting for nearly 70% volume for the express industry until five years ago–has been disrupted. While traditional B2B players were not equipped for last-mile delivery challenges, traditional B2C players, who were mostly handling home shipments of documents weighing less than 500grams, were not equipped to handle the surge in e-commerce volume.
- **New demand centres have emerged:** Additionally, demand centres, which were previously confined to select commercial centres and industrial geographies, have now extended to the entire middle class population of the country – metro, tier-1 and tier-2 cities and then slowly to tier-3 and tier-4 cities.

2. **Growth in manufacturing and MSMEs to keep fuelling the express industry:** Historically, manufacturing growth has been the base driver for the B2B express industry in India. Manufacturing growth has driven MSME growth in India, a segment which has grown much faster than India's real GDP. In fact, MSMEs are key consumers of the express industry and have registered double-digit growth over the past seven-eight years. There has been a direct correlation between MSMEs' growth and express industry growth; the express industry has grown at more than 2x real GDP over the over the period. In terms of manufacturing growth, there is a push from the government to improve the contribution of manufacturing to GDP from 17% currently to 25% by 2020. This spells at least 15% CAGR for the manufacturing sector, which should provide impetus to the express industry.

3. **Regulatory changes have been supportive:** Despite the initial stumbling blocks, GST rollout in 2017 and introduction of the E-Way bill in 2018 should gradually prove to be strong enablers for the increasing the efficiency in the transportation and warehousing sectors, in our view. In addition, road infrastructure progress has accelerated over the past seven—eight years, which has helped expansion of India's road network. We believe this supporting regulatory and infrastructure makes the case of express industry growth stronger. Furthermore, the government's seriousness can be gauged from the fact that a Department of Logistics has been recently formed within the Ministry of Commerce with an objective to reduce inefficiencies from the Indian logistics sector on a fast-track basis. The logistics sector was also accorded an infrastructure status recently.

4. **Rapid involvement of technology:** Globally, the express industry has invested heavily in technology, which has been a critical in raising logistics' efficiency. Over the past few years, the Indian express segment seems to have identified technology as a key enabler, and we believe that this would be an important differentiating factor for the express segment competitiveness. While tracking of vehicles or goods has become a norm, more sophisticated technology, which is reducing inventory management costs and allows for more customised solutions, is getting introduced. This is also spurring several tech startups to venture into the logistics sector in recent years.

Competitive landscape

India's express segment has evolved significantly over the past two decades. The need for time-bound deliveries with visibility and quality service has defined the industry over the years. The industry has seen both vertical as well as horizontal expansion. The express segment, which has been traditionally dominated by Speed Post, has off late seen emergence many technology-enabled players that are banking on the ecommerce explosion in India and are looking exploit the changing industry dynamics. There is also a presence of many regional players in the time-bound delivery set up in India.

The express segment is also fragmented in our view. Within road express, apart from TCIE and GATI, we believe that the other players are very small or regional players. This gives a distinct edge to established players such as TCIE, in our view.

Valuation

We are initiating coverage on TCIE with a 'BUY' recommendation and a one-year target price of INR765 based on our three-stage DCF methodology. The huge multi-year opportunity in the road express segment in India warrants a more fundamental framework to capture the value potential of leading express companies such as TCIE. Thus, we have valued TCIE on a DCF basis, which yields a target price at INR765. At CMP, the stock is trading at a PE of 27x FY20E EPS.

Our DCF assumptions include WACC of 13% and terminal growth of 6%. We have assumed explicit earnings till FY20E. For FY21–25E, we have assumed an EBITDA CAGR of 20%. For the third stage (FY26–30E), we have assumed an EBITDA CAGR of 18%. For FY18-28E overall, our DCF factors in EBITDA of 21.5%.

Table 2: DCF valuation

WACC	%	13%
Terminal growth rate	%	6%
Dis FCF till FY19-30	INR mn	9,750
Terminal value	INR mn	71,641
PV of terminal value	INR mn	20,039
Ent value	INR mn	29,789
Net debt	INR mn	620
Equity value	INR mn	29,169
1-year fair value TP	INR/share	765

Source: Edelweiss research

Table 3: Sensitivity of TP to WACC and terminal growth rate

		WACC (%)				
		12%	**13%**	**14%**	**15%**	**16%**
Terminal growth (%)	**3%**	691	595	518	454	402
	4%	751	639	551	480	422
	5%	828	694	591	510	445
	6%	931	765	642	547	473

Source: Edelweiss research

What does current valuation imply?

Though TCIE's current PE multiple appears to be high, we believe a better way is to look at implied earnings growth that current valuation factors through the next decade. Thus, we have built in earnings estimates till FY20. Below we look at implied earnings growth over FY18-28E that is built in current valuations. We highlight that TCIE's current valuation factors in a reasonable and achievable EBITDA CAGR of 17% through FY30E; we believe the company can deliver 21-22% earnings CAGR through FY30E.

Chart 7: Current valuation factors EBITDA CAGR of 17%, which is beatable

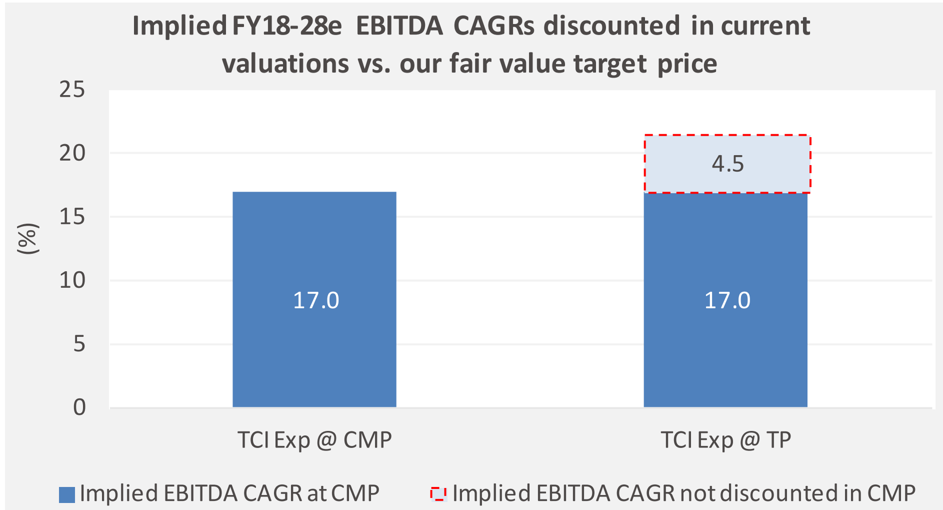


Chart 8: FY15–18 record supports base assumption of EBITDA growth

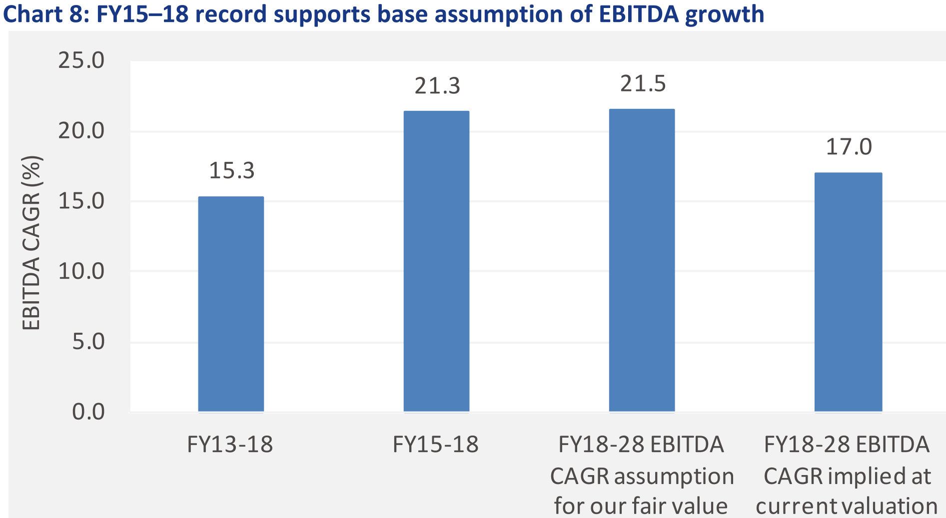
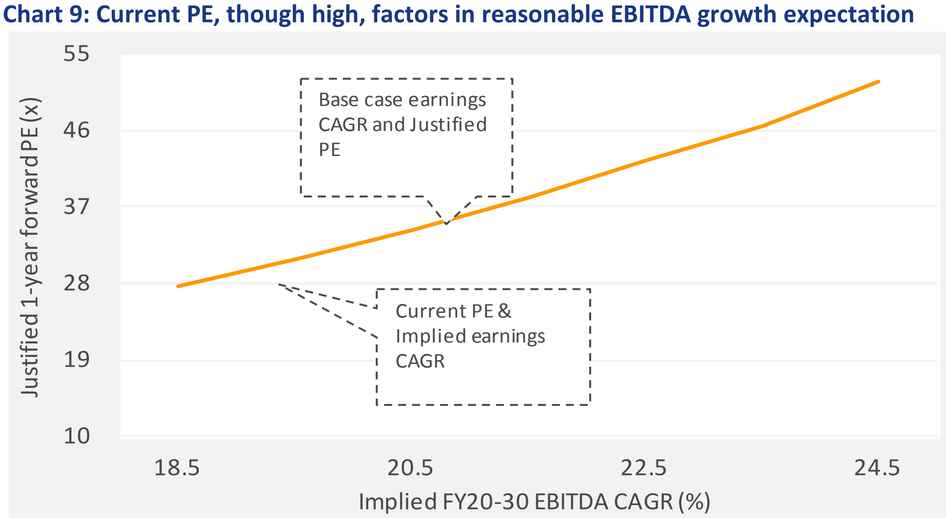


Chart 9: Current PE, though high, factors in reasonable EBITDA growth expectation



Source: Edelweiss research

Key risks

- Our estimates and target price are based on the assumption that surface express will grow 17% annually. Should surface express growth slow down, our estimates would be at risk.
- As the express market is a premium category, we assume reasonably frequent pass-through of higher fuel costs. Inability to pass through will be a downside risk.
- We expect operating leverage gains over the next three years; inability to achieve margin expansion can be a downside risk.

Financial Outlook

TCIE recorded sales growth of 18% in FY18 and sales CAGR of 11% over FY15–18. That said, the company's operating leverage has come into play significantly over the past two years, and we expect this margin expansion to continue. PAT expanded at a CAGR of ~30% during FY15–18. We expect operating leverage to lift margin over the next three years with EBITDA margin likely increasing to ~13% from ~11% currently. As a result, we expect EBITDA/PAT CAGR of 27%/22% during FY18–20E.

Chart 10: We expect earnings growth to accelerate

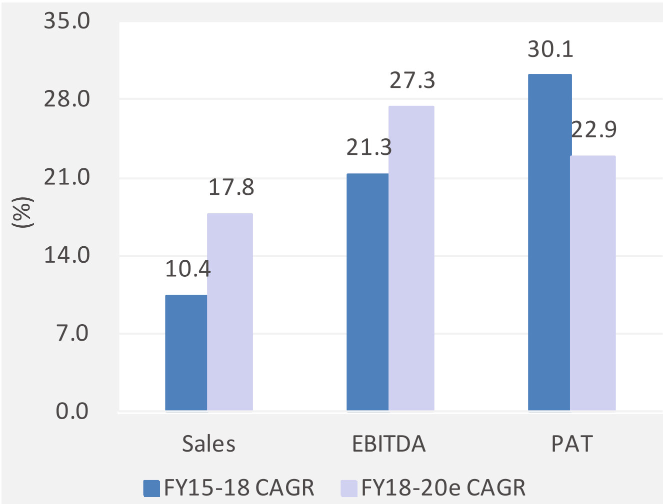
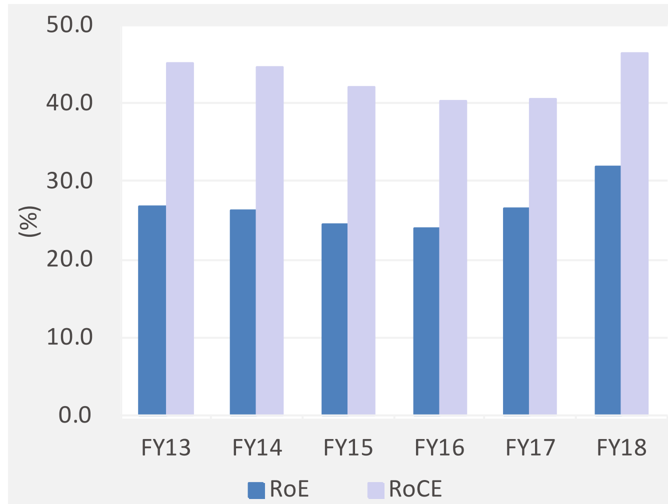
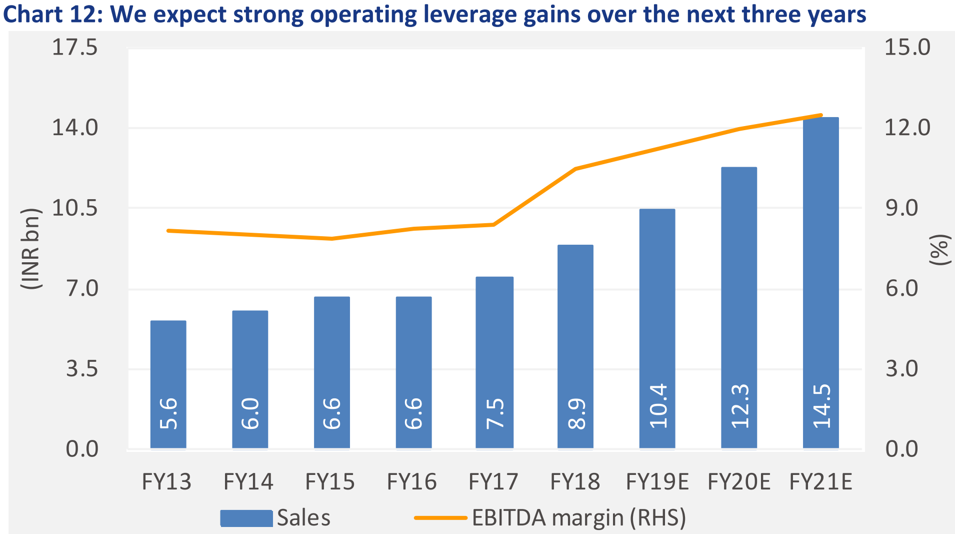


Chart 11: Strong returns profile



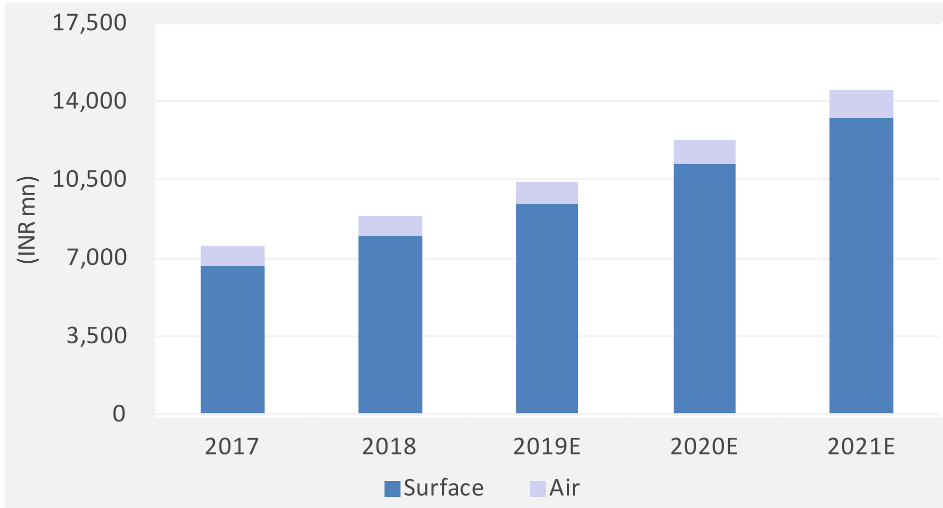
Source: Company, Edelweiss research

Chart 12: We expect strong operating leverage gains over the next three years



Source: Company, Edelweiss research s

Chart 13: Surface revenue growth to outpace air express



Source: Edelweiss research

Chart 14: PAT evolution

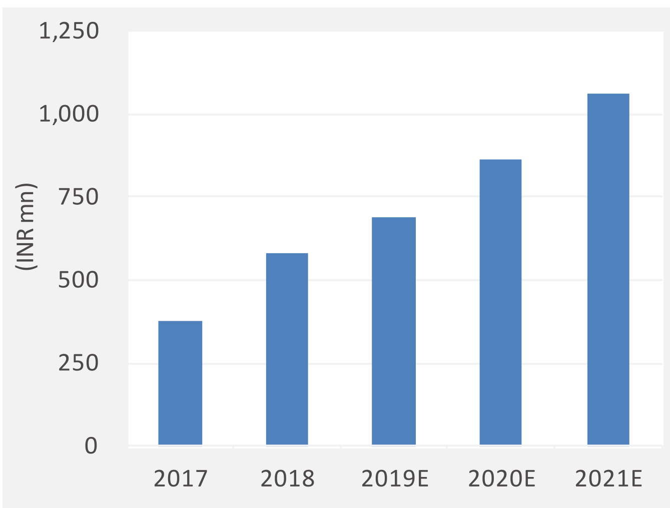
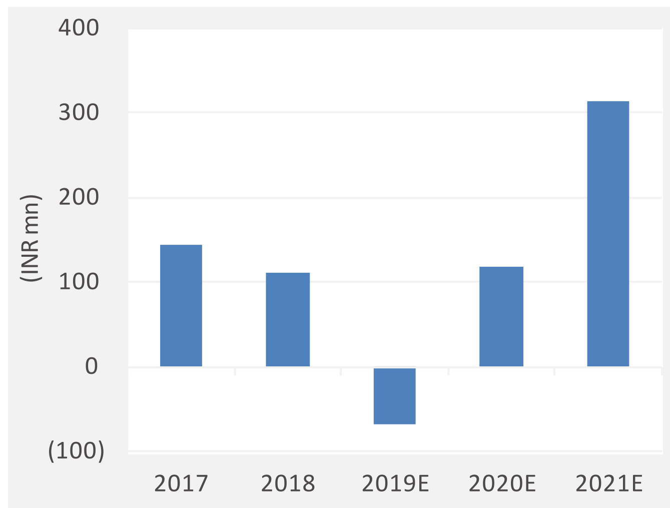


Chart 15: FCF evolution



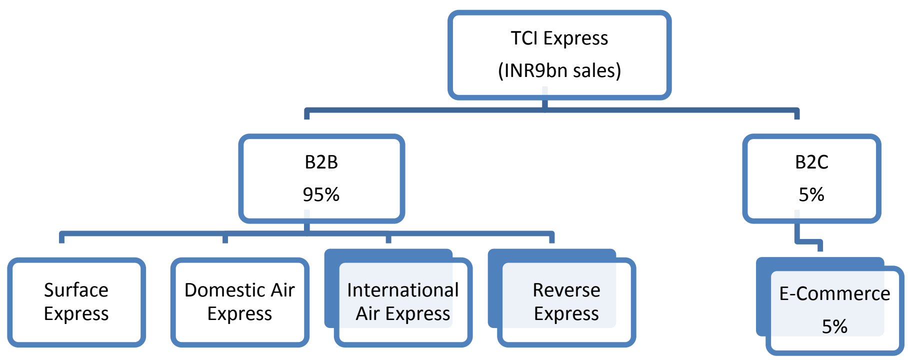
Source: Company, Edelweiss research

Company Description

TCIE is one of the leading players in the Indian road express market with 5–6% market share. The company primarily provides express services to B2B clientele for cargo weighing up to 35kg. Apart from domestic surface express services, the company provides services across domestic air express, international air express, reverse express and e-commerce express. It has a pan-India network covering 704 of 712 districts with 650-plus branches capable of servicing 40,000-plus pickup and delivery points through 4,500-plus containerised vehicles. TCIE has established 28 strategically-located sorting centres, which is the backbone of its pan-India business. The company's hub-and-spoke model facilitates prompt cargo movement, which is a key driver of efficiency and generates higher yield per route.

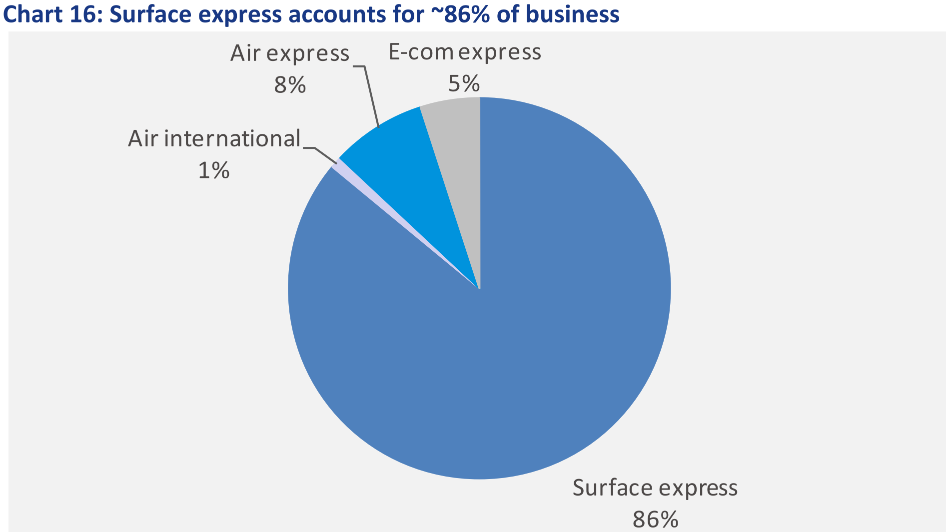
The company was established in 1997 as a multi-specialist express cargo division of the Transport Corporation of India (TCIL). In 2016, TCI XPS division demerged from Transport Corporation of India to its current avatar, i.e. TCI Express, an independent company listed on the National Stock Exchange and the Bombay Stock Exchange.

Fig. 6: Key business segments



Source: Company, Edelweiss research

Chart 16: Surface express accounts for ~86% of business



Source: Company, Edelweiss research

Table 4: Management overview

Key personnel	Profile
Mr. D P Agarwal Chairman and Director	Mr. D P Agarwal is Vice Chairman and Managing Director of TCI. He has been associated with the transport industry for more than 43 years. Mr. Agarwal holds the Directorships of Bhoruka Power Corporation and Jai Bharat Maruti Ltd. He is also associated with various Chambers of Commerce including CII, FICCI and PHDCCI. Besides, Mr. Agarwal actively participates in many social and philanthropic activities.
Mr. Chander Agarwal	Mr. Chander Agarwal is Director of TCI. He is a Bachelor of Science in Business Administration from Bryant College, Smithfield, RI. Mr. Agarwal joined TCI as a summer intern and worked in various departments including operations, logistics, marketing, etc, thereby getting a fair amount of exposure to key functions in the company.
Managing Director	His hands-on experience with Transfreight USA, a 3PL specialising in 'lean logistics' for Toyota Motor vehicles, USA, gives him unmatched knowledge of supply chain management. He is spearheading Group TCI's expansion across Asia, Latin America and Africa.
Mr. P C Sharma	Mr. P C Sharma has been associated with TCI since 1982. He started his career at TCI as a trainee and currently heads TCIE.
CEO & Whole Time Director	Mr. Sharma is a Bachelor of Commerce and has undergone various executive training programs at the reputed IIM-A, Indian School of Business (ISB) and XLRI Jamshedpur. Besides, he is an alumnus of Harvard Business School and National University of Singapore.
Mr. Mukti Lal CFO	Mr. Mukti Lal is Chief Financial Officer of TCIE. A qualified Chartered Accountant, Mr. Lal has been associated with TCIL (the demerged company) in various capacities for the last 13 years. He was working as CFO-XPS Division of TCIL. As a finance professional with over a decade of experience spanning the entire gamut of finance, he has played a major role in overall strategy and corporate governance at the company.
Mr. Manish Jain Sales, Marketing & Corporate Communication	Mr. Manish Jain heads Sales and Marketing at TCIE. A management graduate with 20 years of experience in Logistics/Express Industry, Mr. Jain has worked across the spectrum from Trainee Sales to a Senior Management role.

Source: Company

Financial Statements

Key assumptions

		FY18	FY19E	FY20E	FY21E
Macro	GDP(Y-o-Y %)	6.7	7.3	7.6	7.6
	Inflation (Avg)	3.6	4.5	5.0	5.0
	Repo rate (exit rate)	6.0	6.8	6.8	6.8
	USD/INR (Avg)	64.5	70.0	72.0	72.0
Company					
Surface - Tons carried (YoY growth)		14.2	15.0	15.0	15.0
Surface - Per ton realis. (YoY growth)		4.5	3.0	3.0	3.0
EBITDA margins (%)					
EBITDA margin (%)		10.2	11.0	11.8	12.3
Cost and financial assumptions					
Gross margins (%)		24.9	25.5	26.0	26.3
Other expenses (%)		6.5	6.5	6.3	6.1
EBITDA margins (%)		10.2	11.0	11.8	12.3
Capex (INR mn)		(627)	(700)	(700)	(700)
Net borrowings (INR mn)		276	525	643	613
Cash conversion cycle (days)		40	40	40	40

Income statement (INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Net revenues	8,851	10,420	12,272	14,458
Operating expenses	6,644	7,763	9,081	10,655
Gross profit	2,207	2,657	3,191	3,802
Employee Benefit Expenses	725	834	982	1,157
Other expenses	575	677	767	875
Total expenditure	7,944	9,274	10,830	12,687
EBITDA	907	1,146	1,442	1,771
Depreciation & amortisation	52	71	99	127
EBIT	854	1,075	1,343	1,644
Less: Interest Expense	38	50	65	70
Add: Other income	21	25	22	21
Profit before tax	838	1,050	1,300	1,595
Provision for tax	254	357	437	536
Reported Profit	584	693	863	1,059
Adjusted Profit	584	692	861	1,056
No. of Shares outstanding (mn)	38.3	38.3	38.3	38.3
Adjusted Basic EPS	15.3	18.1	22.5	27.6
No. of Dilu. Sha. Outstand.(mn)	38.3	38.3	38.3	38.3
Adjusted Diluted EPS	15.3	18.1	22.5	27.6
Adjusted Cash EPS	16.7	19.9	25.1	30.9
Dividend per share (DPS)	2.8	3.3	4.2	5.1
Dividend Payout Ratio (%)	18.4	18.5	18.5	18.6

Common size metrics (% net revenues)

Year to March	FY18	FY19E	FY20E	FY21E
Gross margin	24.9	25.5	26.0	26.3
Other Expenses	6.5	6.5	6.3	6.1
EBITDA margins	10.2	11.0	11.8	12.3
EBIT margin	9.7	10.3	10.9	11.4
Interest	0.4	0.5	0.5	0.5
Net profit margin	6.6	6.6	7.0	7.3

Growth metrics (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	18.0	17.7	17.8	17.8
EBITDA	46.5	26.4	25.8	22.8
PBT	48.2	25.3	23.8	22.7
Adjusted Profit	55.8	18.5	24.5	22.6
EPS	55.8	18.5	24.5	22.6

Balance sheet (INR mn)

As on 31st March	FY18	FY19E	FY20E	FY21E
Share capital	77	77	77	77
Reserves & surplus	1,992	2,530	3,201	4,025
Shareholder equity	2,068	2,607	3,278	4,101
Long term borrowings	17	217	317	317
Short term borrowings	382	382	382	382
Total Borrowings	398	598	698	698
Deferred Tax Liability (net)	43	43	43	43
Sources of funds	**2,509**	**3,248**	**4,019**	**4,842**
Gross Block	1,781	2,481	3,181	3,881
Net Block	1,602	2,231	2,832	3,405
Intangible assets and Goodwill	18	18	18	18
Total net fixed assets	1,620	2,249	2,850	3,422
Other non-current assets	52	52	52	52
Cash and cash equivalents	122	73	56	85
Sundry Debtors	1,544	1,770	2,085	2,456
Loans & Advances	71	71	71	71
Other Current Assets	30	30	30	30
Total Current Assets (ex cash)	1,645	1,871	2,186	2,557
Trade payables	646	714	841	990
Other CL & Short Term Provisions	283	283	283	283
Total CL & Provisions	929	997	1,124	1,274
Net Current Assets (ex cash)	716	874	1,062	1,284
Uses of funds	**2,509**	**3,248**	**4,019**	**4,842**
Book Value per share (INR)	54	68	86	107

Free cash flow

Year to March	FY18	FY19E	FY20E	FY21E
Reported Profit	584	693	863	1,059
Add: Depreciation	52	71	99	127
Add:Interest	25	33	43	47
Add: Others	119	(325)	(376)	(441)
Gross cash flow	780	472	630	792
Less: Changes in WC	42	(158)	(188)	(222)
Operating cash flow	739	631	817	1,013
Less: Capex	(627)	(700)	(700)	(700)
Free Cash Flow	**112**	**(69)**	**117**	**313**

Cash flow metrics

Year to March	FY18	FY19E	FY20E	FY21E
Operating cash flow	739	631	817	1,013
Financing cash flow	(76)	(4)	(157)	(306)
Investing cash flow	(628)	(675)	(678)	(679)
Net cash flow	34	(49)	(17)	29
Capex	(627)	(700)	(700)	(700)

Profitability ratios

Year to March	FY18	FY19E	FY20E	FY21E
EBITDA margin	10.2	11.0	11.8	12.3
Pre-tax ROCE (%)	46.2	43.8	41.8	41.0
Return on Average Equity (ROAE) (%)	31.8	29.6	29.3	28.6
ROA (%)	26.2	24.0	23.7	23.8
Current ratio	1.9	2.0	2.0	2.1
Quick ratio	1.8	1.9	1.9	2.0
Cash ratio	0.1	0.1	0.0	0.1
Receivable turnover (x)	5.3	5.4	5.4	5.4
Payables turnover (x)	12.7	13.5	13.5	13.5
Receivables (days)	69	67	67	67
Payables (days)	29	27	27	27
Cash conversion cycle (days)	40	40	40	40
Net Debt/Equity	0.1	0.2	0.2	0.1
Debt/EBITDA	0.4	0.5	0.5	0.4
Adjusted debt/Equity (x)	0.2	0.2	0.2	0.2
Long term debt / Capital empl. (%)	0.7	6.7	7.9	6.5
Total debt / Capital employed (%)	15.9	18.4	17.4	14.4
Interest coverage (x)	22.7	21.6	20.7	23.5

Operating ratios (x)

Year to March	FY18	FY19E	FY20E	FY21E
Total asset turnover	4.0	3.6	3.4	3.3
Fixed asset turnover	6.8	5.4	4.8	4.6
Equity turnover	4.3	4.0	3.7	3.5

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adjusted Diluted EPS (INR)	15.3	18.1	22.5	27.6
Adjusted Cash EPS (INR)	16.7	19.9	25.1	30.9
Dil. Price to Earnings Ratio (P/E) (x)	40.0	33.8	27.1	22.1
Price to Book Ratio (P/B) (x)	11.3	9.0	7.1	5.7
Enterprise Value / Sales (x)	2.7	2.3	2.0	1.7
Enterprise Value / EBITDA (x)	26.1	20.8	16.6	13.5
Dividend Yield (%)	0.5	0.5	0.7	0.8

Additional Data

Directors Data

Chander Agarwal	Managing Director	Vineet Agarwal	Director
Phoolchand Sharma	Wholetime Director	Taruna Singhi	Director
Mukti Lal	CFO(KMP)	Prashant Jain	Director
Dharmpal Agarwal	Director	Murali Krishna Chevuturi	Director
Ashok Kumar Ladha	Director		

Auditors - R. S. Agarwala & Co.

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Canara Robeco Asset Management Co	1.75	Alquity Investment Management Ltd	1.08
Dimensional Fund Advisors LP	0.83	Grandeur Peak Global Advisors LLC	0.77
Principal Financial Group Inc	0.73	IDFC Mutual Fund/India	0.68
JPMorgan Chase & Co	0.34	Morgan Stanley	0.27
Bessemer Group Inc/The	0.01	Manulife Financial Corp	0.01

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
6-Aug-18	MANULIFE GLOBAL FD-INDIA EQUITY FUND	SELL	226090	697

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
16-Nov-18	Pramod Nair	Sell	20,213
21-Nov-18	Begur Ravi Prakash	Sell	25,000

**as per last available data*

India Midcaps

INITIATING COVERAGE

TRANSPORT CORPORATION OF INDIA

An old hand at the game

India Equity Research| Logistics

Edelweiss
Ideas create, values protect

We initiate coverage on Transport Corporation of India (TCIL) with 'BUY' and target price of INR318. We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high-margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for 15-17% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential of TCIL's 3PL segment by atleast 25-30%.

Business mix improvement underway

TCIL's business mix is changing on two counts. First, within its freight division, the company is focusing more on high-margin LTL business, a transition that is also driven by a larger need for reducing timelines by clients. Second, its supply chain segment is growing rapidly and we estimate this segment to be 40-45% over the next two years. This will increase the structural growth element in the business and reduce cyclicality.

3PL sector growth will be a good background

TCIL has built a ~INR10bn 3PL business essentially without a large anchor client, which we find creditable. We estimate India's 3PL sector to clock 15-17% CAGR over the next six-seven years. The company's strategy has been to moderately own assets to add dependability to the offering. We believe, this approach will continue as it adds more clients. We also estimate the market is undervaluing this segment's long-term potential by 25-30%.

Outlook & valuations: On a strong footing; initiate with 'BUY'

We initiate with 'BUY' on TCIL with TP of INR318 based on relative valuation methodology. While we see TCIL's story as one of moderate growth (FY18-21E EPS CAGR of 14%), we believe that the market is undervaluing the business potential and current valuations factor in earnings CAGR of mere 12%.

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	23,461	27,478	31,424	35,762
EBITDA (INR mn)	2,127	2,548	2,938	3,341
Adjusted Profit (INR mn)	1,238	1,438	1,598	1,846
Adjusted Diluted EPS (INR)	16.2	18.8	20.8	24.1
EPS growth (%)	52.1	16.2	11.1	15.5
P/E (x)	17.1	14.7	13.2	11.5
EV/EBITDA (x)	11.7	10.3	8.9	7.7
ROACE (%)	14.8	14.9	14.7	15.4
ROAE (%)	17.6	17.7	17.4	17.7

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Value

MARKET DATA *(R: TCIL BO, B: TRPC IN)*

CMP	: INR 276
Target Price	: INR 318
52-week range (INR)	: 375 / 232
Share in issue (mn)	: 76.7
M cap (INR bn/USD mn)	: 21 / 296
Avg. Daily Vol. BSE/NSE ('000)	: 81.0

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	66.9	67.0	66.1
MF's, FI's & BKs	10.2	7.9	7.6
FII's	1.9	0.0	0.0
Others	21.0	25.1	26.3

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	3.1	8.1	4.9
3 months	(8.2)	(22.6)	(14.4)
12 months	4.9	(6.1)	(11.0)

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November 26, 2018

Investment Rationale

We initiate coverage on TCIL with 'BUY'. Our investment argument is based on two points:

(1) TCIL is improving its business mix, which should boost margin and returns, in our view. More importantly, the mix is changing in favour of higher growth categories such as supply chain business and LTL within the freight segment.

(2) The company has an impressive 3PL or supply chain management division which has ramped up successfully and growth is likely to stay accelerated at 17-18% as a base case. The structural uptrend of the domestic 3PL sector is a key positive. We believe, the market is under-appreciating this business and our analysis indicates that nearly ~40% of the fair value of this segment is not in current valuation.

(3) TCIL's freight division—historically a full truck load (FTL) business—is undergoing a mix improvement where the LTL mix is growing and hence boosting margin. TCIL is able to do this because of its large fleet size. We believe, this will improve the segment's earnings quality along with higher RoCE.

Table 1: TCIL—Operational structure

	Freight Division	Supply Chain Management	Seaways	Others	Total
Business activity	Road logistics (FTL & LTL)	Third Party Logistics	Shipping	Corporate/ Unallocated	
Other info on business	3,500 trucks & trailers operated (120 owned)	Warehousing & Transportation: 12mn sqft managed and 4,000 vehicle fleet (1,350 owned)	6 Cargo ships		
Sales (INR mn)	10,291	9,110	2,392	230	22,023
EBITDA (INR mn)	388	942	825	174	2,329
EBITDA margin (%)	3.8%	10.3%	34.5%	75.7%	10.6%
Contribution to sales	46.7%	41.4%	10.9%	1.0%	
Contribution to EBITDA	16.7%	40.4%	35.4%	7.5%	
Capital Employed (INR mn)	2,255	2,976	3,022	3,336	11,409
RoCE	13.9%	21.7%	22.4%	4.7%	15.4%

Source: Company, Edelweiss research

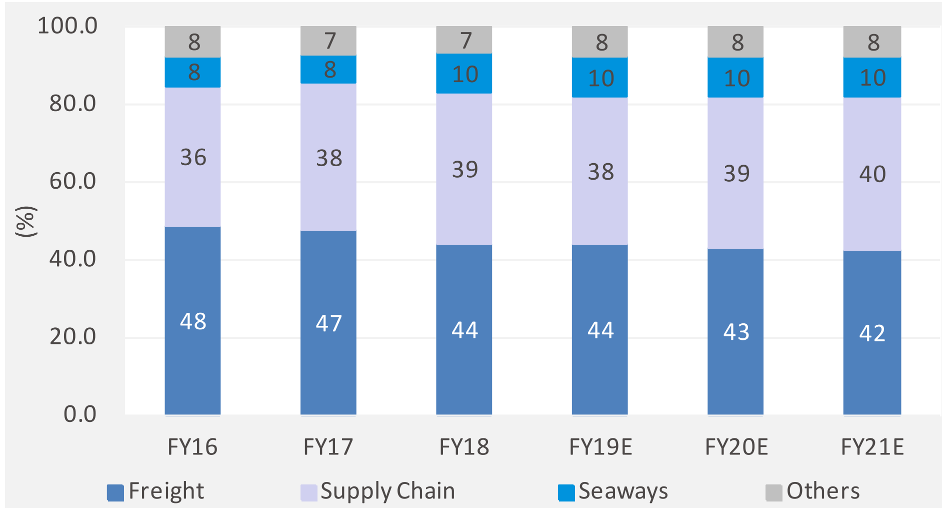
Towards an improved mix

TCIL is improving its business mix and we believe this should boost margin and returns. More importantly, the mix is changing in favour of higher growth categories such as supply chain business and LTL within the freight segment.

For instance, TCIL's supply chain business, which is clocking 18-20% growth, will reach almost 45% of total consolidated sales by FY21E from 38% currently. The longevity of growth in this category of supply chain management is high and this should ensure high quality growth for the company.

Similarly, within the legacy freight division, LTL is ramping up to 20% from 15-20% currently. Traditionally, TCIL has been primarily in the FTL business and now with a large fleet, improvement in this segment is possible. Note that margin in LTL operations is 2x the FTL business.

Chart 1: Supply chain business' share to rise in consolidated sales



Source: Company, Edelweiss research

Supply chain business remains under-appreciated

TCIL's supply chain segment provides customised solutions for verticals such as auto, retail, telecom, electricals, chemicals, pharmaceuticals, FMCG, record management and cold chain.

Unlike captive or anchor based businesses such as Mahindra Logistics or Future Supply Chain, TCIL has built a supply chain business division by directly approaching clients over the years. As a result, at the initial stage, the company had to invest in owning assets to prove its seriousness to clients as well as other leasing partners. Currently, the company has its own storage of ~12mn sq ft. As the segment's sales have ramped up (currently ~INR10bn), we believe the business has come of age and now TCIL is considered a genuine player in the 3PL space.

We note that sales for the past two years reflect this acceptance from customers (21% sales CAGR over FY16-18). While the company may continue to moderately buy assets in this division, we believe management, for the scaling up, involves depending on an asset-light model.

In our view, the biggest source of value creation from TCIL can come through the supply chain division. We estimate the current valuation indicates that this division is undervalued by nearly 40% *(after assigning fair values to other segments)*. According to our estimates, while this segment's bottom line is valued at less than 25x PE, we see MLL and Future Supply Chain at valuations of 25-30x.

Over the next two-three years as TCIL's supply chain division ramps up and races to INR20bn sales, we believe the market will attribute true value to this business, leading to value creation for the company as a whole.

Chart 2: Supply chain division's ramp up likely to remain accelerated

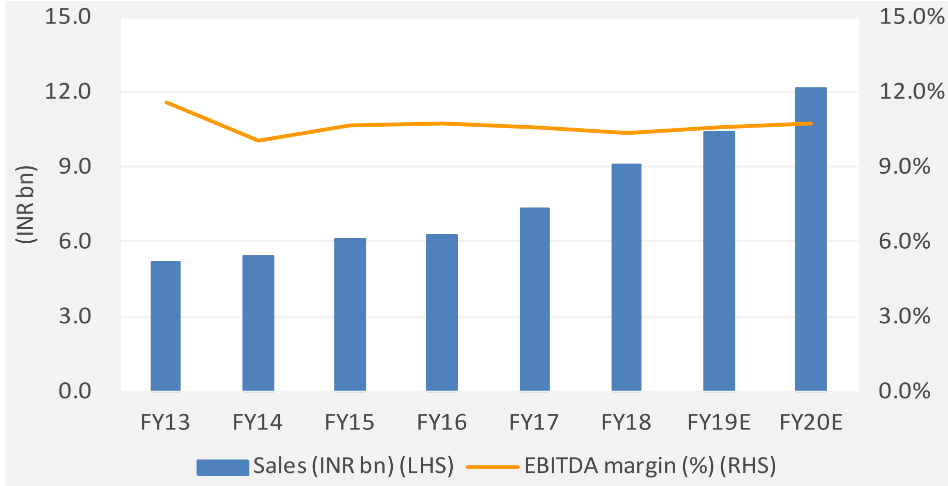


Chart 3: Robust RoCE profile in this business segment

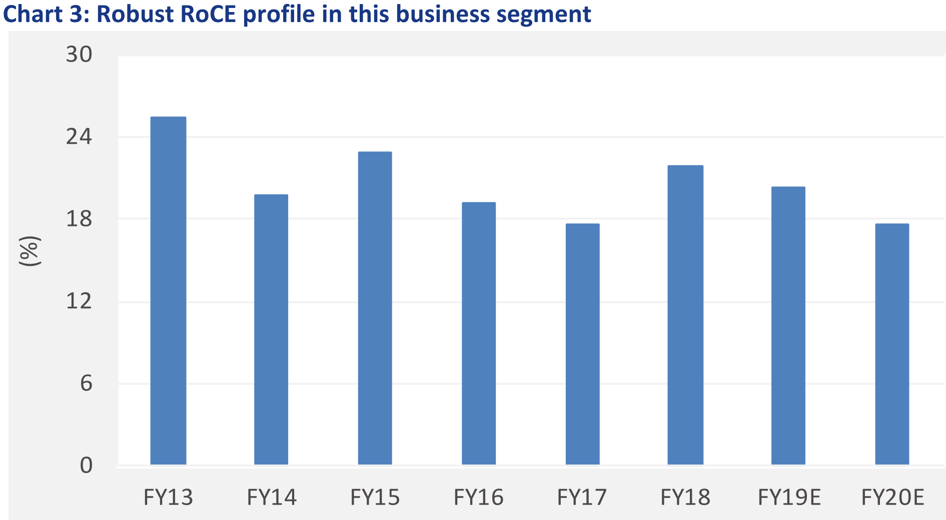
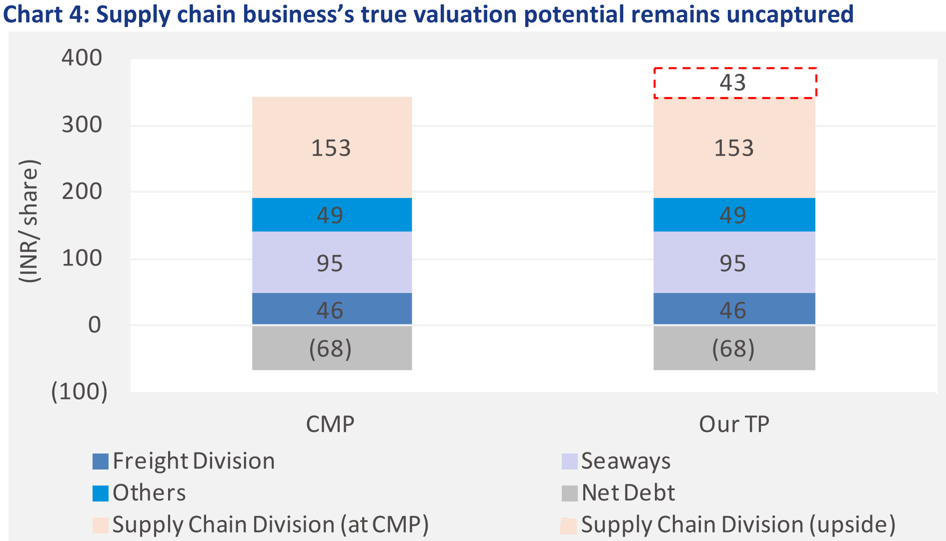


Chart 4: Supply chain business's true valuation potential remains uncaptured



Source: Company, Edelweiss research

Bullish on India's 3PL story

As we have discussed in detail earlier, we are bullish on India's 3PL sector and expect it to jump 3x to USD17bn by FY25E. TCIL has ~3% market in this sector and we expect it to be one of the leading independent 3PL companies in the next five-seven years.

Key demand drivers and enablers for 3PL market growth

1. **Client mindset change from 'non-core to core':** On the demand front, a transformation is underway—large and medium sized companies (clients) are reducing focus on manging supply chain and entirely outsourcing this function. The customisation and end-to-end services provided by 3PL companies are aiding this mindset shift, in our view. From a client's perspective, our research and discussions with industry participants indicate that the move to 3PL is driven by two key factors:

   a. **Cost savings:** A large number of clients still depend on own logistics departments (1PL) or partner with a large number of vendors for transportation and warehousing (2PL). This creates inefficiencies, not only from a cost outflow point of view, but also from a management bandwidth perspective. As a result, 3PL is turning out to be critical cost saving lever.

   b. **Competitive advantage:** Several clients are opting for 3PL services also because it lends competitive advantages in terms of geographical reach and low turnaround time for inventories.

2. **Larger client verticals are steady growth avenues:** For the 3PL market, key consumer verticals are automotive, auto components, e-commerce and consumers. Among these, while we expect auto and auto components to be steady growth contributors with 13-15% CAGR, consumer/consumer durables and e-commerce have the potential to deliver 20-25% CAGR over the ensuing five-seven years.

3. **Regulatory changes have been supportive:** Despite the initial stumbling blocks, the implementation of GST in 2017 and introduction of e-way bill in 2018 should gradually prove to be strong enablers of increasing efficiency in transportation and warehousing sectors. In addition, road infrastructure progress have picked up significantly over the past seven-eight years, which has helped the expansion of India's road network. We believe, this supporting regulatory and infrastructure makes the case of 3PL stronger. Furthermore, the government's seriousness can be gauged from the fact that a Department of Logistics has been recently set up within the Ministry of Commerce with an objective to reduce inefficiencies in India's logistics sector on a fast track basis. The logistics sector was also granted infrastructure status recently.

4. **Rapid involvement of technology:** Traditionally, the logistics sector in the developed world has invested heavily in technology—a critical reason for higher efficiency. Over the past few years, India's logistics sector seems to have identified technology has a key enabler and we believe this will be an important differentiating factor for 3PL's competitiveness. While tracking of vehicles or goods has become a norm, more sophisticated technology is being introduced which reduces inventory management costs and provides more customised solutions to clients. Not surprisingly, this has also led to several tech startups venturing into the logistics sector in recent years.

Freight business: Mix improving

TCIL's freight division is its traditional business built largely on road logistics. As a result, this business was built largely on the FTL model where the entire truck load is from a single client. Currently, the company has a fleet of 3,500 trucks & trailers and almost of this fleet is leased from vehicle owners rendering TCIL's operations asset light. This implies lower margin compared to vehicle owners, but at the same time provides flexibility and scalability.

Rising fuel cost challenge, improving mix will neutralise impact

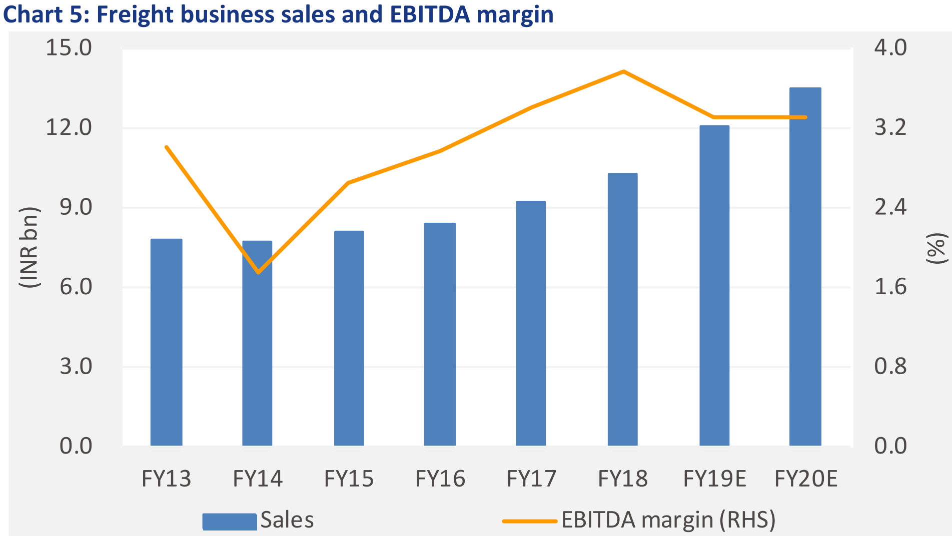
TCIL has been actively improving its mix of LTL in this segment. While LTL component is currently less than 20% of this segment's sales, we believe it is improving. As a result, we believe that division's margin and RoCE is structural undergoing a positive change. On the flip side, we remain concerned on medium-term profitability challenges in road logistics due to high fuel costs. As a result, our view on this is segment largely neutral, but with a positive bias due to the improving mix.

Table 2: Supply chain and sea ways are high margin segments

	FTL	LTL
Share of organized (%)	<10%	20-40%
Cost to customer (INR/ton-km)	2.5-3.5	5.0-8.0
EBIT margin (%)	2-4%	8-11%
RoCE (%)	10-12%	15-17%
Delivery time	96 to 120 hours	72 to 96 hours
Delivery type	Godown Booking – Godown Delivery	Flexible

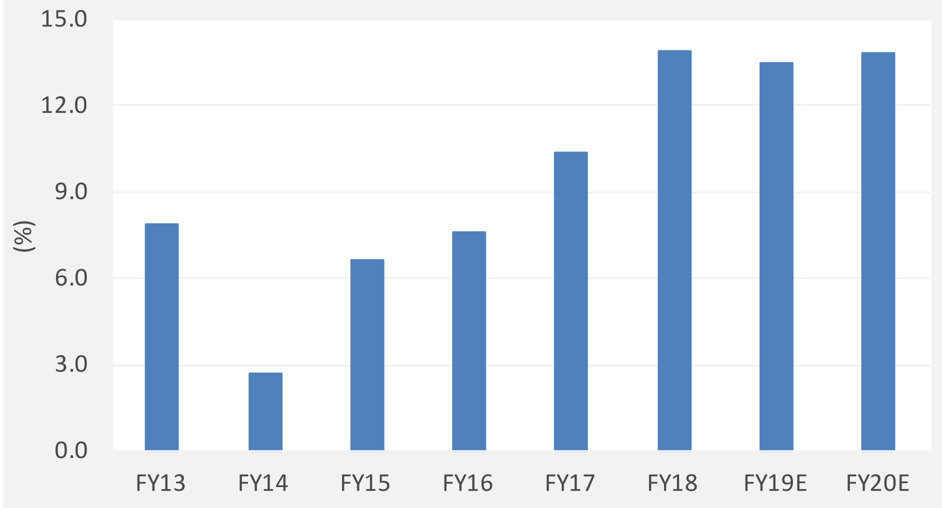
Source: Company, Edelweiss research

Chart 5: Freight business sales and EBITDA margin



Source: Company, Edelweiss research

Chart 6: RoCE profile of the freight business



Source: Company, Edelweiss research

Demand drivers of the road logistics sector:

1) **Growth in economic activity:** We envisage demand for transportation services to grow in line with expanding economic activity. By FY25, we estimate freight transportation by road to constitute over 70% of total domestic freight transportation. We believe, in spite of reduction in logistics as a percentage of GDP over the next three-four years, road logistics' contribution to GDP will be fairly flat, driven by rising volumes and efficiencies.

2) **Transition from rail to road:** In 1950s the proportion of goods carried by rail and road was 89% and 11%, respectively. By 2013 the share of road freight transportation increased to ~65%. Even though freight transportation through rail consumes lesser fuel and is cheaper on cost per tonne basis compared to road transport, the shift from rail to road has been majorly on account of:

   - Capacity constraints.
   - Non-competitive tariff.
   - Connectivity.
   - Infrastructure.
   - Subsidisation of passenger transportation by charging higher freights.

3) **Demand from high growth sectors**: Sectors such as retail, e-commerce and FMCG are estimated to post CAGR of 20% plus over FY18-25. The sharpened focus on direct customer delivery, e-commerce penetration, reduced delivery times and rising customer expectations are envisaged to boost demand for road transportation.

Supply-side factors / enablers:

1) **Investments and expansion of road infrastructure:** The road network expands to 115,435km of national highways while the total road network was 5.6mn km. Road building rate has increased from 12km a day in FY15 to 27km a day in FY18; the

government is targeting ~40km a day. In FY18, construction of highways reached 122,432km.

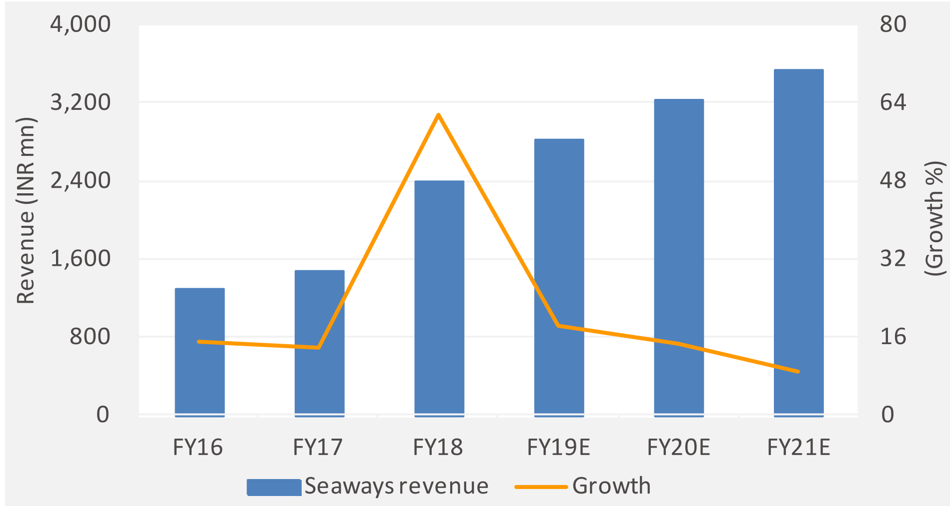
2) **Efficiencies due to simplified tax system:** With GST and implementation of e-way bill, transit times at inter-state border check points, which previously accounted for up to 60% of the total transit time, have reduced. While this reduction will increase trucking capacity sans further investments, due to a skewed demand and the time required to see full effects of GST, realisation of additional capacity will be gradual. Further, we believe the increased capacity will also create additional pricing pressure on truck operators, who already operate on low margins.

3) **Technological drivers:** Technology is changing the landscape of India's road transport. Various startups are using technology more intensively to provide real-time tracking of trucks, increased transparency & accuracy with regard to delivery times and more efficient capacity utilisation. Due to tech-enabled scheduling of loads, the use of middlemen is being reduced, leading to higher efficiency. We can see the apparent benefits of new tech-based business models; however, it poses a threat to established road transport companies and forces them to come up with innovative solutions to hold their market shares.

Seaways: Steady contribution to profit growth

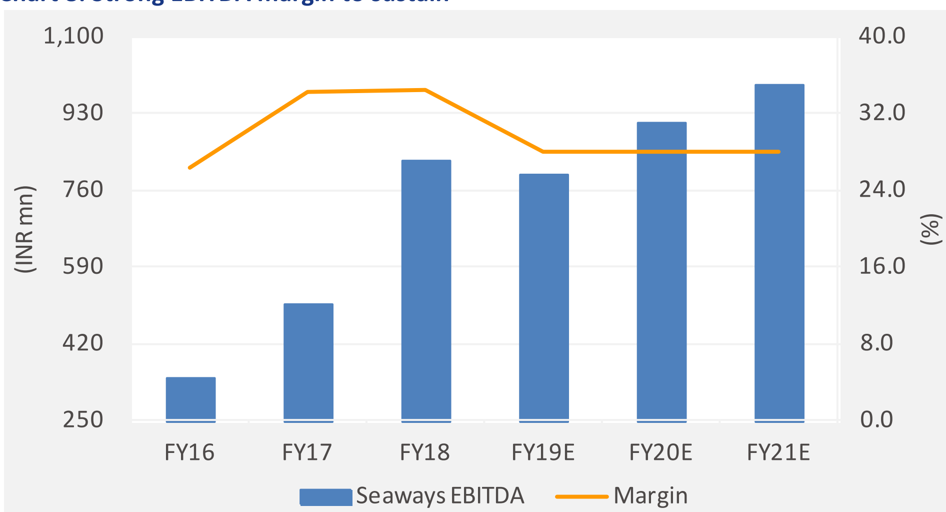
- TCI Seaways was started as a division of TCI in February 1995. It primarily caters to the coastal cargo requirements for transporting container and bulk cargo from ports on the West & East coasts of India to Port Blair in the Andaman and Nicobar islands and further distribution within the islands. It provides domestic services of coastal shipping, agency service and international services of break bulk, project cargo and containerised business. The company operates seven ships, of which one commenced operations during FY18 and one in Q2FY19. Currently, TCIL owns 4,200 containers and has total capacity of 63,380DWT.
- Over FY14-18, the segment has posted 22% revenue and 30% EBITDA CAGR. The peak of YoY revenue growth in FY18 of 62% was primarily on account of deployment of an additional ship of 13,760DWT on the West coast. Further, we estimate FY19 revenue to grow YoY by ~28% on account of further capacity addition of 23,260DWT in Q2FY19. In the absence of further capex, we estimate flat revenue growth from FY20, with growth coming predominantly from higher capacity utilisation and marginal increase in realisation.
- Even though the segment contributed only about 11% to total revenue in FY18, it contributed 47% to EBITDA. The segment has historically clocked strong EBITDA margin—expanded from 27% in FY14 to 34% in FY18. We estimate margin to contract marginally to 32% over FY19-21 primarily due to flat realisation per DWT, rising fuel costs and weaker USD-INR exchange rate.

Chart 7: Historical strong revenue growth to flatten



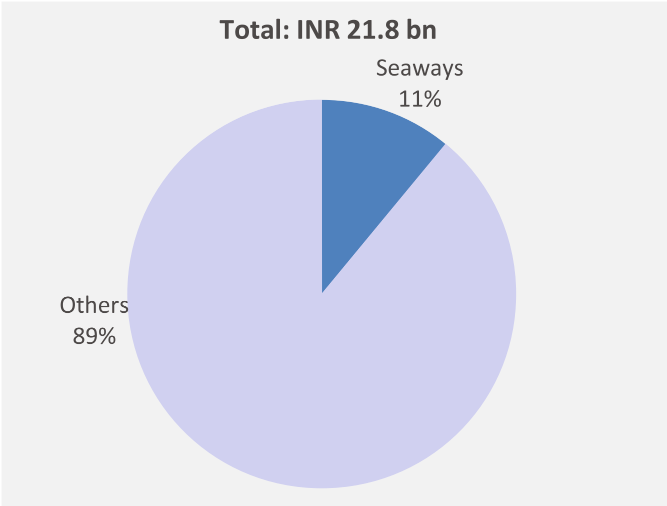
Source: Company, Edelweiss research

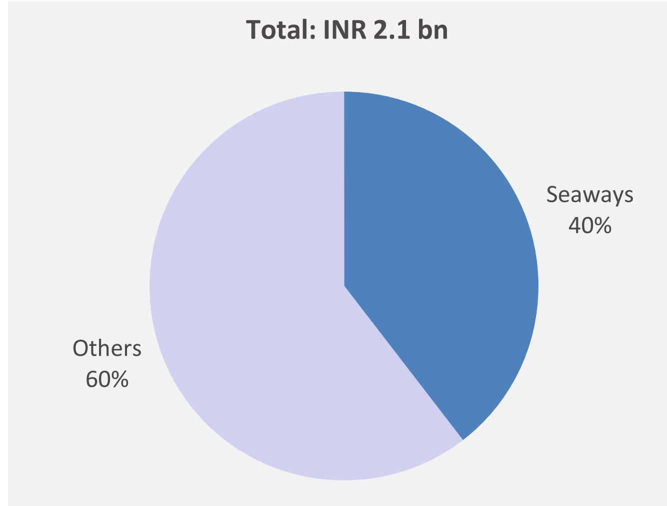
Chart 8: Strong EBITDA margin to sustain



Source: Company, Edelweiss research

Chart 9: Segment revenue contributes 11% and EBITDA contributes 47% to total





Source: Company, Edelweiss research

Valuation

We initiate coverage on TCIL with **'BUY'** recommendation and target price of INR368. Our one-year target price is based on SOTP where we value each of the segments based on its RoCE. For the supply chain division, we use DCF methodology as we believe that it is more apt to capture the true long-term value of this business.

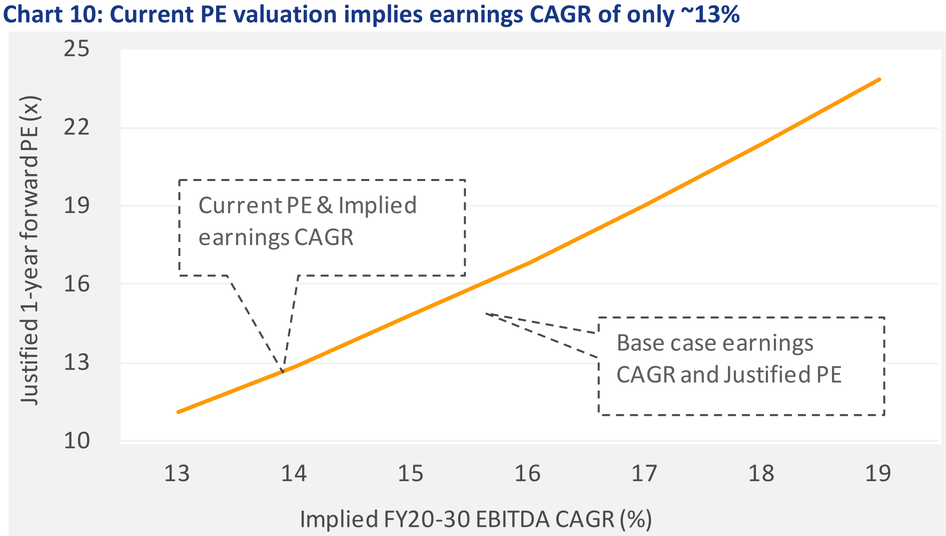
Our analysis indicates that current market valuations significantly under-value the supply chain division to the extent of 40-45%. Over the next two-three years as TCI's supply chain division ramps up and scales the INR20bn sales mark, we believe the market is likely to attribute true value to this business, leading to the value creation for TCIL.

Table 3: SOTP valuation

	FY20E EBITDA (INR mn)	EV/EBITDA (x)	EV (INR mn)	Methodology
Freight	445	8.0	3,559	Based on a RoCE profile of 13-14%
Supply Chain	1,300	11.6	15,020	DCF-based using WACC of 13% and terminal growth of 6%
Seaways	907	8.0	7,258	Based on a RoCE profile of 22-23%
Others	231	7.0	1,616	
Value from Subs	55	7.0	386	
Value from JVs	247	7.0	1,726	
Total EV			**29,566**	
Net Debt			4,973	FY19-end
Equity Value			**24,592**	
Target price (INR/share)			**318**	

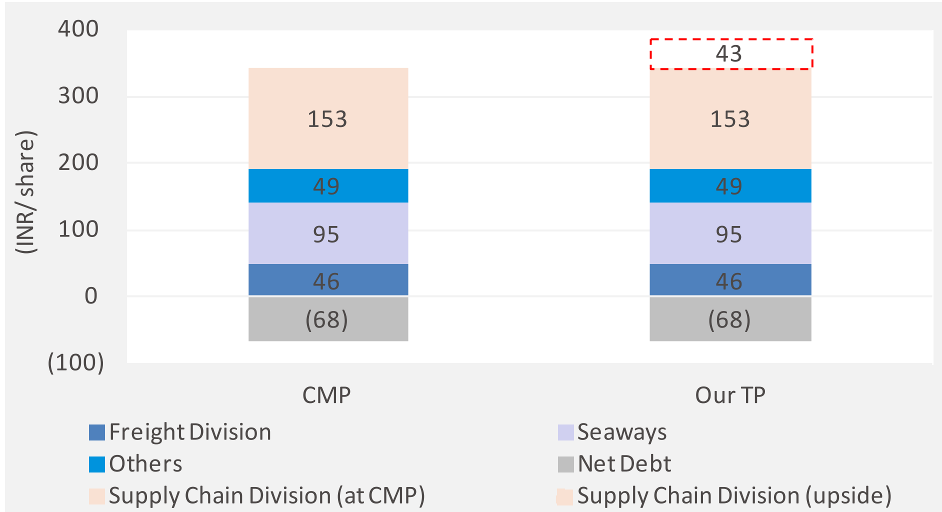
Source: Company, Edelweiss research

Chart 10: Current PE valuation implies earnings CAGR of only ~13%



Source: Company, Edelweiss research

Chart 11: Supply chain business's true valuation potential remains uncaptured



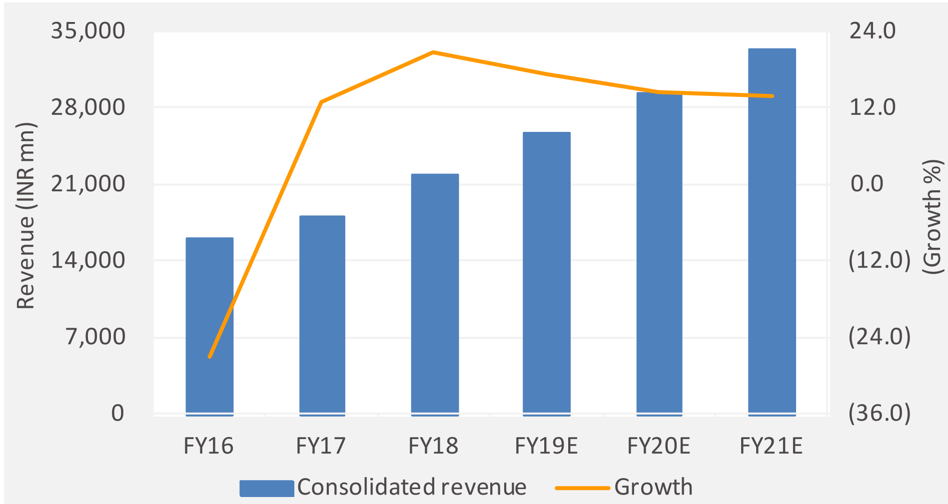
Source: Company, Edelweiss research

Financial Outlook

High revenue growth to sustain

TCIL's consolidated revenue has clocked 17% CAGR from INR16bn in FY16 to INR21bn in FY18 driven by high growth in the supply chain segment (21% CAGR) and the seaways segment (36% CAGR). Negative growth in FY16 was on account of change in revenue accounting policy in compliance with Ind-AS.

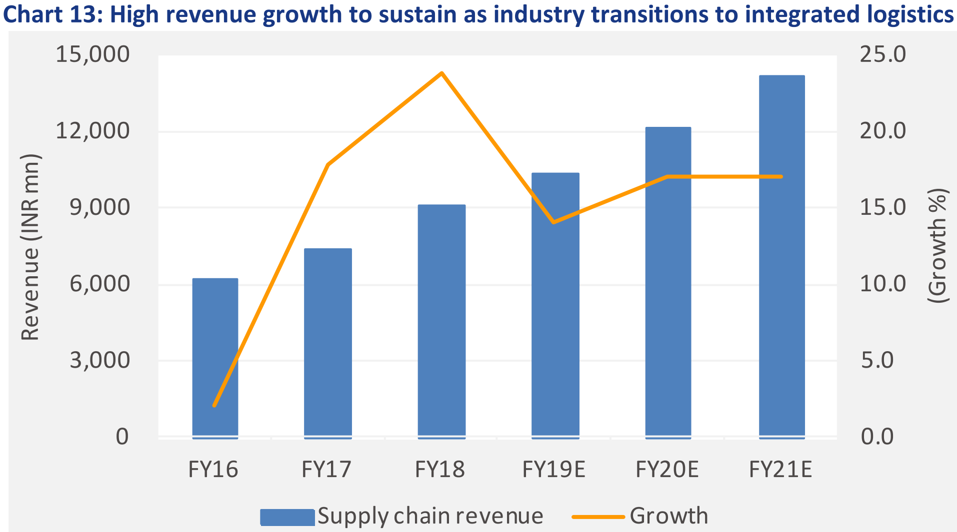
Chart 12: Supply chain to drive overall growth



Source: Company, Edelweiss research

High growth in the supply chain segment is on account of sector trend in user industries as they shift to integrated 3PL service providers. We believe, as efficiencies are realised and as users move to end-to-end integrated logistics services providers, the segment will post CAGR of ~18-20% over FY18-21E.

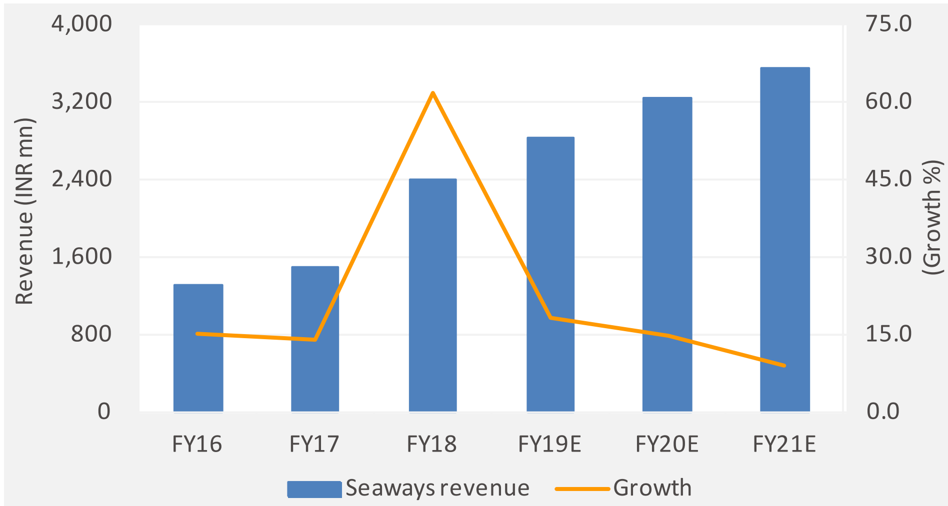
Chart 13: High revenue growth to sustain as industry transitions to integrated logistics



Source: Company, Edelweiss research

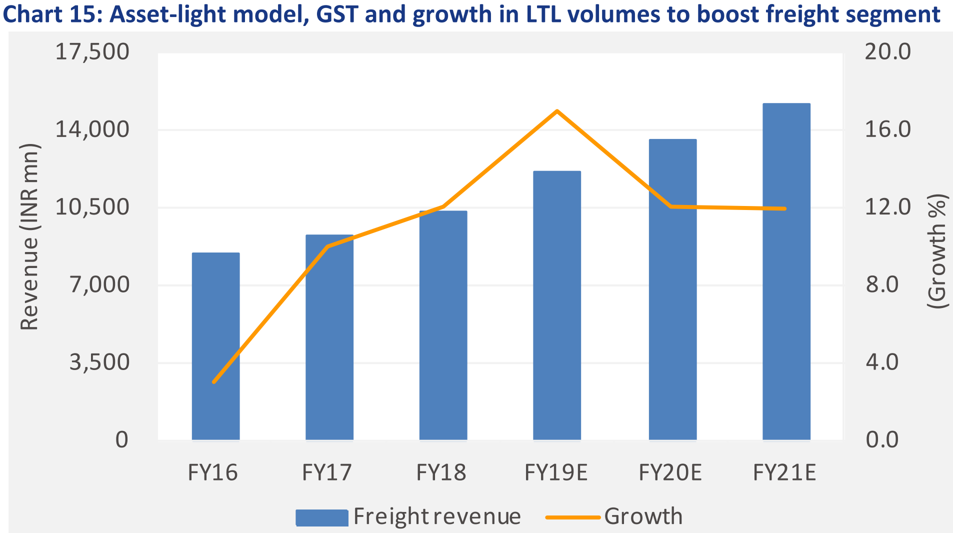
The seaways segment's revenue grew 62% to INR2.4bn in FY18 from INR1.5bn in FY17 primarily due to deployment of an additional ship on the West coast of 13,760DWT capacity. We estimate the segment to clock ~20% CAGR over FY18-21 on account of planned capacity addition and sharpened focus on multi-modal solutions for cargo originating from northern to southern states.

Chart 14: Capacity addition and multi-modal focus to be key growth drivers



Source: Company, Edelweiss research

Chart 15: Asset-light model, GST and growth in LTL volumes to boost freight segment

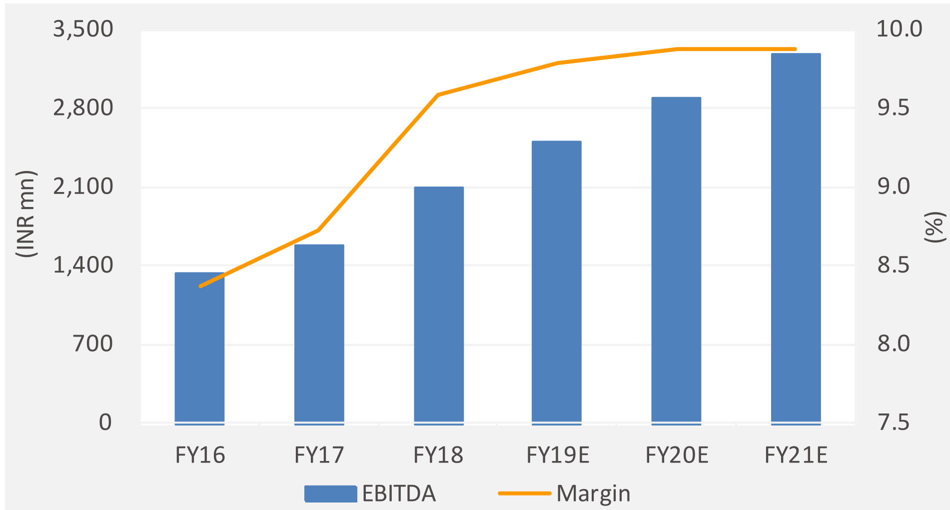


Source: Company, Edelweiss research

Strong EBITDA growth driven by SCM and seaways

FY18 EBITDA and EBITDA margin came at ~INR2.1bn and 9.6%, respectively. Seaways is TCI's highest margin (30%) segment, but accounts for 40% of total EBITDA. As of FY18, SCM segment's EBITDA margin was 10% and we estimate the margin to remain relatively flat over FY19-21.

Chart 16: Strong EBITDA growth and margin to sustain



Source: Company, Edelweiss research

Chart 17: Seaways is the highest EBITDA margin segment

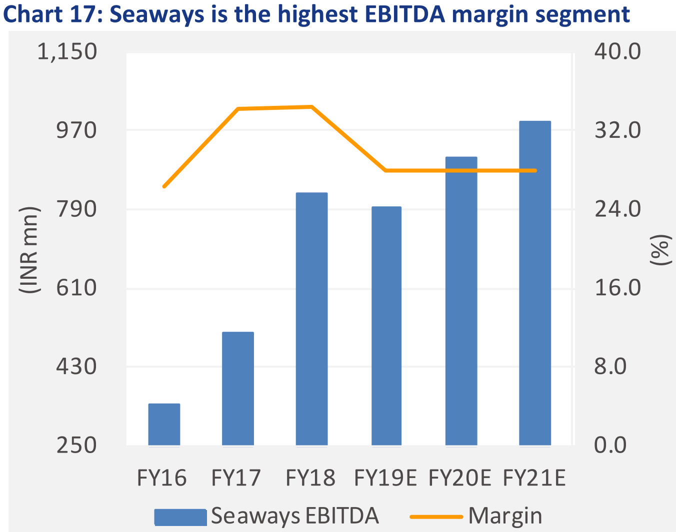
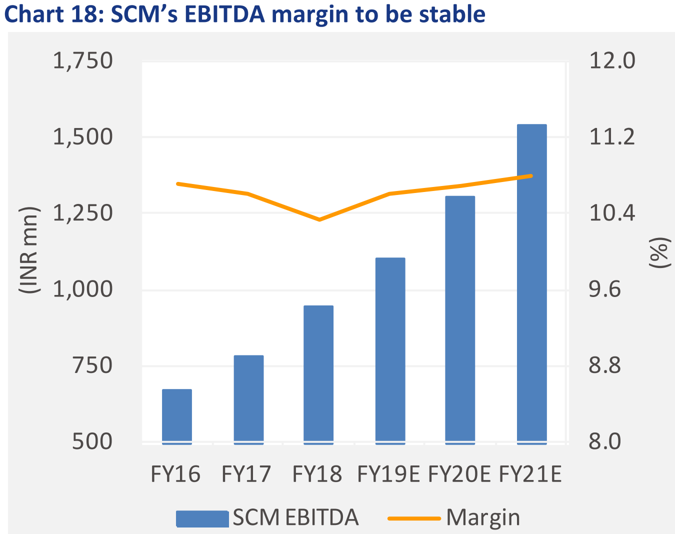
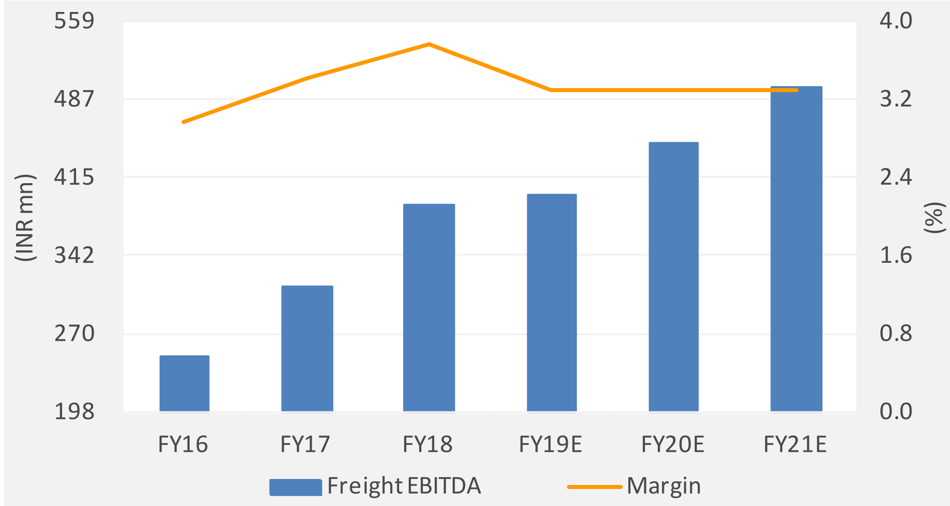


Chart 18: SCM's EBITDA margin to be stable



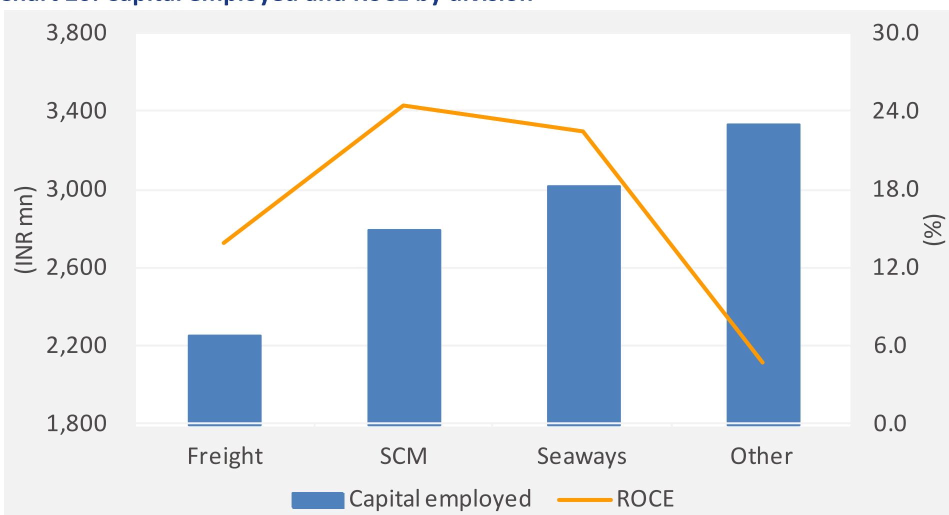
Source: Company, Edelweiss research

Chart 19: Low EBITDA margin in freight segment to be mitigated by move to LTL



Source: Company, Edelweiss research

Chart 20: Capital employed and RoCE by division



Source: Company, Edelweiss research

Company Description

Business Model

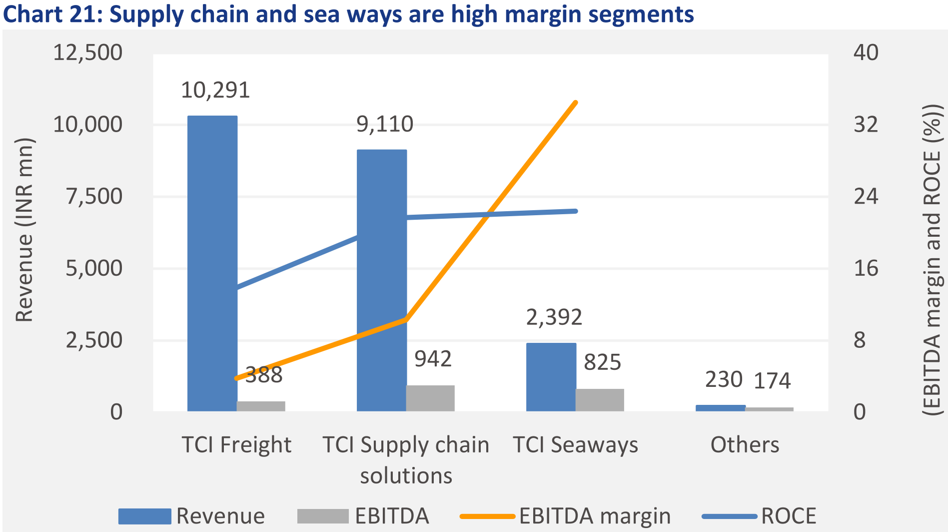
The TCI Group is an integrated multi-modal logistics and supply chain solutions provider. TCIL operates in several logistics businesses—freight division (road logistics), supply chain management or 3PL, seaways (shipping/cargo ships), etc. Below we present a snapshot of TCIL's business model.

Table 4: TCIL—Operational structure

	Freight Division	Supply Chain Management	Seaways	Others	Total
Business activity	Road logistics (FTL & LTL)	Third Party Logistics	Shipping	Corporate/ Unallocated	
Other info on business	3,500 trucks & trailers operated (120 owned)	Warehousing & Transportation: 12mn sqft managed and 4,000 vehicle fleet (1,350 owned)	6 Cargo ships		
Sales (INR mn)	10,291	9,110	2,392	230	22,023
EBITDA (INR mn)	388	942	825	174	2,329
EBITDA margin (%)	3.8%	10.3%	34.5%	75.7%	10.6%
Contribution to sales	46.7%	41.4%	10.9%	1.0%	
Contribution to EBITDA	16.7%	40.4%	35.4%	7.5%	
Capital Employed (INR mn)	2,255	2,976	3,022	3,336	11,409
RoCE	13.9%	21.7%	22.4%	4.7%	15.4%

Source: Company, Edelweiss research

Chart 21: Supply chain and sea ways are high margin segments



Source: Company, Edelweiss research

Chart 22: FY18 revenue by segment

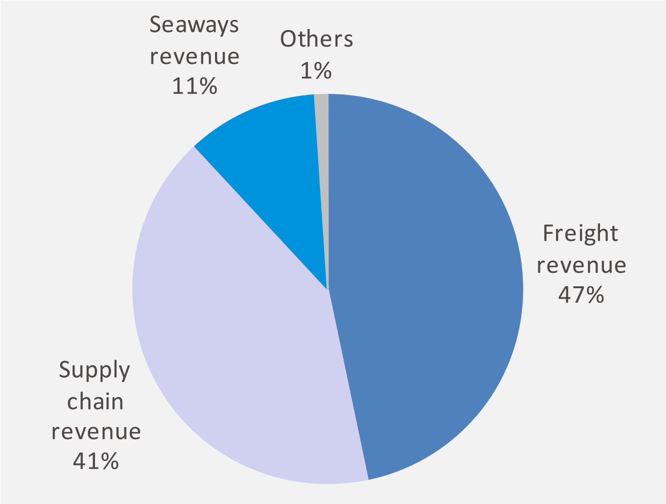
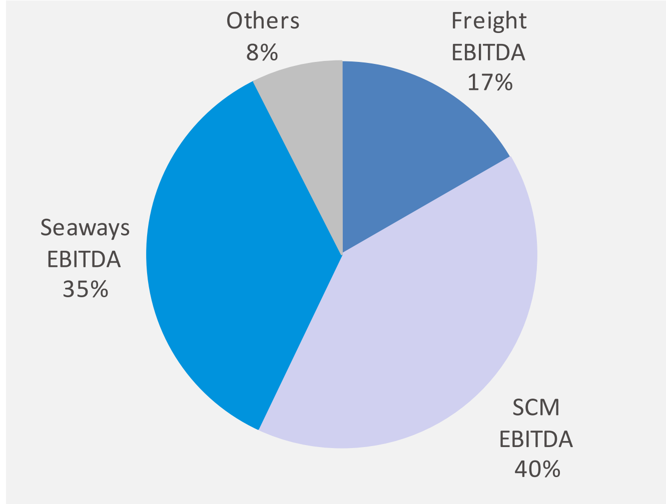


Chart 23: FY18 EBITDA by segment



Source: Company, Edelweiss research

Table 5: TCIL—Key milestones

Year	Milestones
1958	Founded in Calcutta with one truck
1982	IPO
1996	Launch of XPS Services
1997	Launch of Logitra - the absolute logistic services
1998	Launch of XPS air mode services
1999	Inception of Transystem International limited (TLI), a joint venture with Mitsui and Co. of Japan for providing automobile logistics
2002	Launch of XPS Global service for providing International freight forwarding services and single window clearances
2005	Launch of XPS Courier Service
2006	Group TCI crosses Rs 1000 crore turnover
2009	Expanded its Global footprints to 12 countries. Received 'Best 3PL Express, Logistic & Supply Chain Awards for the year' This is for the third time in the row that we have bagged the ELSCC Award.
2010	Infinite Logistics Solutions Private Limited (ILSPL) has formed a joint venture between TCI and CONCOR for bulk multimodal logistics solutions by rail and road.
2011	TCI group with a revenue of INR 20 Billion (Approx. $ 450 Million USD)
2011	The Real Estate arm of TCI Group TCI Developers Ltd. (TDL) listed on BSE | NSE
2013	Infinite Logistics Soultions Pvt Ltd (ILSPL) renamed as TCI CONCOR Multimodal Solutions Pvt Ltd
2016	TCI STARTED SERVICES IN BANGLADESH WITH THE COMPANY NAMES AS TCI BANGLADESH LTD.
2016	TCI INAUGURATES ITS 1ST STATE OF THE ART COLD CHAIN WAREHOUSE AT PATAUDI ROAD

Source: Company

Table 6: Management overview

Key personnel	Profile
Mr. D.P. Agarwal Vice Chairman & Managing Director	Mr. D P Agarwal is the Vice-Chairman and Managing Director of TCI. Mr. Agarwal has been associated with the transport industry for more than 43 years. Mr. Agarwal holds the Directorships of Bhoruka Power Corporation and Jai Bharat Maruti Ltd. Mr. Agarwal is also associated with various Chambers of Commerce including CII, FICCI & PHDCCI. He also takes active participation in many social and philanthropic activities for the common good.
Mr. Vineet Agarwal Managing Director	Mr. Vineet Agarwal is the Managing Director of TCI. He joined the Company in January 1996 and has held various finance and management roles within the Company. In addition to these responsibilities, Mr. Agarwal is Director with Transcorp International and Chairman in Transystem Logistics International has led the Company into high growth segments like Third Party Logistics.
Mr. Chander Agarwal Director	Mr. Chander Agarwal is the Jt. Managing Director of TCI. He joined in as a management trainee. Mr. Agarwal has held various finance and management roles in other group companies like TCI Seaways, XPS etc. Currently he is heading Group TCI's international expansion and Express Cargo Services.
Mr. M. P. Sarawagi	Mr. M P Sarawagi has been associated with the Company for the past 51 years. He is a Graduate in Law from the Calcutta University. He possesses rich experience in the legal and commercial aspects of the transport industry.
Director	Mr. Sarawagi has also served on the Boards of Orissa Tyres, Calcutta Goods Transport Association, All India Motor Union Congress and several other cultural associations.
Mr. Jasjit Sethi President & CEO - TCI SCS	
Mr. P.C. Sharma	Mr. P. C. Sharma has been associated with TCI since 1982. He started his career in TCI as trainee and currently heads TCIEXPRESS Ltd.
President & CEO - TCI EXPRESS	He holds a B. Com degree and has also undergone various executive training programs from renowned institutes like IIM-A, Indian School of Business (ISB), XLRI Jamshedpur and is also alumni of Harvard Business School and National University of Singapore.
Mr. IS Sigar CEO - TCI Freight	
Mr. R.U. Singh President & CEO - TCI Seaways	
Mr. P.K. Jain CEO - TCI Global, HOD-HR	Mr. P. K. Jain serves as the Chief Executive Officer of TCI Global at Transport Corp. of India Ltd. Mr. Jain has been Head of the Department - Human Resources at Transport Corp. of India Ltd. since August 8, 2016. He served as the President of TCI Global at Transport Corp. of India Ltd.
Mr. Ajit Singh CEO - TCI CONCOR Multimodal Solutions Pvt. Ltd.	
Mr. N. K. Baranwal CEO - TCI Developers Ltd.	
Mr. Rajkiran Kanagala Group Head – Business Development	Mr. Rajkiran Kanagala serves as Head of Marketing & Business Development at Transport Corp. of India Ltd. Mr. Kanagala served as the Head of Group Business Development at Transport Corp. of India Ltd.
Mr. Ashish Tiwari Group CFO	Mr. Ashish Tiwari is a Chief Financial Officer of the Company. He has been Group Head- A/c & Taxation.
Mr. Punit Kumar Rastogi HOD - IT	

Source: Company

Financial Statements

Key assumptions		FY18	FY19E	FY20E	FY21E
Macro	GDP(Y-o-Y %)	6.7	7.3	7.6	7.6
	Inflation (Avg)	3.6	4.5	5.0	5.0
	Repo rate (exit rate)	6.0	6.8	6.8	6.8
	USD/INR (Avg)	64.5	70.0	72.0	72.0
Company					
Total tonnage (mn tonne km)		4,936	5,395	5,544	5,694
Realisation per tonne per km (INR)		2.1	2.2	2.4	2.7
Ship capacity (DWT)		63,380	86,640	86,640	86,640
Realisation per DWT		68,619	68,000	68,000	68,000
Segmental sales growth (%)					
TCI Freight		12.1	16.9	12.0	11.9
TCI Supply Chain Solutions		23.8	14.0	17.0	17.0
TCI Seaways		61.6	18.2	14.6	9.1
TCI Corp and Others		18.6	25.0	10.0	10.0
Segmental EBITDA margins (%)					
TCI Freight		3.8	3.3	3.3	3.3
TCI Supply Chain Solutions		10.3	10.6	10.7	10.8
TCI Seaways		34.5	28.0	28.0	28.0
TCI Corp and Others		75.7	73.0	73.0	73.0
Cost and financial assumptions					
Other expenses (%)		4.4	4.7	4.7	4.7
EBITDA margins (%)		9.1	9.3	9.4	9.3
Capex (INR mn)		(1,511)	(2,730)	(1,550)	(1,500)
Net borrowings (INR mn)		3,811	4,962	4,973	4,670
Receivable (days)		72	67	66	66
Payable (days)		10	8	8	8
Cash conversion cycle (days)		62	59	58	58

Income statement (INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Net revenues	23,461	27,478	31,424	35,762
Operating expenses	19,068	22,140	25,298	28,795
Employee Benefit Expenses	1,245	1,496	1,709	1,944
Other expenses	1,021	1,295	1,480	1,683
Total expenditure	21,334	24,931	28,486	32,421
EBITDA	2,127	2,548	2,938	3,341
Depreciation & amortisation	686	808	992	1,127
EBIT	1,441	1,739	1,946	2,213
Less: Interest Expense	322	388	434	406
Add: Other income	182	160	170	155
Profit before tax	1301	1511	1682	1962
Provision for tax	287	319	355	415
Add: Sha. of profit from ass.	224	247	271	298
Reported Profit	1,238	1,438	1,598	1,846
Adjusted Profit	1,238	1,438	1,598	1,846
No. of Shares outstanding (mn)	76.6	76.6	76.6	76.6
Adjusted Basic EPS	16.2	18.8	20.9	24.1
No. of Dilu. Sha. Outstand.(mn)	76.7	76.7	76.7	76.7
Adjusted Diluted EPS	16.2	18.8	20.8	24.1
Adjusted Cash EPS	25.8	29.3	33.8	38.8
Dividend per share (DPS)	1.6	1.8	2.1	2.4
Dividend Payout Ratio (%)	9.9	9.8	9.9	9.9

Common size metrics (% net revenues)

Year to March	FY18	FY19E	FY20E	FY21E
EBITDA margins	9.1	9.3	9.4	9.3
EBIT margin	6.1	6.3	6.2	6.2
Interest	1.4	1.4	1.4	1.1
Net profit margin	5.3	5.2	5.1	5.2

Growth metrics (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	20.8	17.1	14.4	13.8
EBITDA	31.3	19.8	15.3	13.7
PBT	53.2	16.2	11.3	16.6
Adjusted Profit	52.4	16.2	11.1	15.5
EPS	52.1	16.2	11.1	15.5

Balance sheet				(INR mn)
As on 31st March	**FY18**	**FY19E**	**FY20E**	**FY21E**
Share capital	153	153	153	153
Reserves & surplus	7,465	8,487	9,625	10,953
Shareholder equity	7,618	8,640	9,778	11,106
Long term borrowings	1,514	2,114	1,989	1,764
Short term borrowings	2,439	3,139	3,064	2,889
Total Borrowings	3,953	5,253	5,053	4,653
Deferred Tax Liability (net)	445	445	445	445
Sources of funds	**12,080**	**14,403**	**15,341**	**16,268**
Gross Block	7,696	10,246	11,796	13,296
Net Block	6,252	7,994	8,552	8,924
Capital work in progress	563	563	563	563
Total net fixed assets	6,821	8,563	9,121	9,493
Non current investments	1,044	1,044	1,044	1,044
Other non-current assets	491	491	491	491
Cash and cash equivalents	142	291	80	(17)
Inventories	33	35	40	45
Sundry Debtors	4,249	4,672	5,343	6,082
Loans & Advances	136	136	136	136
Other Current Assets	1,062	1,062	1,062	1,062
Total Current Assets (ex cash)	5,480	5,905	6,581	7,325
Trade payable	597	590	674	767
Other CL & Short Term Provisions	1,300	1,300	1,300	1,300
Total CL & Provisions	1,897	1,890	1,975	2,068
Net Current Assets (ex cash)	3,582	4,015	4,606	5,258
Uses of funds	**12,080**	**14,403**	**15,341**	**16,269**
Book Value per share (INR)	99	113	128	145

Free cash flow				
Year to March	**FY18**	**FY19E**	**FY20E**	**FY21E**
Reported Profit	1,238	1,438	1,598	1,846
Add: Depreciation	686	808	992	1,127
Add:Interest	216	260	291	272
Add: Others	(682)	(1,144)	(1,482)	(1,622)
Gross cash flow	1,459	1,363	1,400	1,624
Less: Changes in WC	(342)	(433)	(592)	(651)
Operating cash flow	1,801	1,796	1,991	2,275
Less: Capex	(1,511)	(2,730)	(1,550)	(1,500)
Free Cash Flow	**291**	**(934)**	**441**	**775**

Cash flow metrics				
Year to March	**FY18**	**FY19E**	**FY20E**	**FY21E**
Operating cash flow	1,801	1,796	1,991	2,275
Financing cash flow	(303)	922	(823)	(1,026)
Investing cash flow	(1,543)	(2,570)	(1,380)	(1,345)
Net cash flow	(44)	148	(211)	(96)
Capex	(1,511)	(2,730)	(1,550)	(1,500)
Dividends paid	(163)	(169)	(189)	(220)

Profitability ratios				
Year to March	**FY18**	**FY19E**	**FY20E**	**FY21E**
EBITDA margin	9.1	9.3	9.4	9.3
Pre-tax ROCE (%)	14.8	14.9	14.7	15.4
Return on Avg. Equity (ROAE) (%)	17.6	17.7	17.4	17.7
ROA (%)	10.9	10.9	10.7	11.7
Current ratio	3.0	3.3	3.4	3.5
Quick ratio	2.9	3.1	3.3	3.5
Cash ratio	0.1	0.2	0.0	(0.0)
Receivable turnover (x)	5.0	5.5	5.5	5.5
Payables turnover (x)	35.9	43.2	43.7	43.8
Receivables (days)	72	67	66	66
Payables (days)	10	8	8	8
Cash conversion cycle (days)	62	59	58	58
Net Debt/Equity	0.5	0.6	0.5	0.4
Debt/EBITDA	1.9	2.1	1.7	1.4
Adjusted debt/Equity (x)	0.5	0.6	0.5	0.4
Long term debt / Cap. empl. (%)	12.5	14.7	13.0	10.8
Total debt / Capital employed (%)	32.7	36.5	32.9	28.6
Interest coverage (x)	4.5	4.5	4.5	5.4

Operating ratios (x)				
Year to March	**FY18**	**FY19E**	**FY20E**	**FY21E**
Total asset turnover	2.1	2.1	2.1	2.3
Fixed asset turnover	4.0	3.9	3.8	4.1
Equity turnover	3.3	3.4	3.4	3.4

Valuation parameters				
Year to March	**FY18**	**FY19E**	**FY20E**	**FY21E**
Adjusted Diluted EPS (INR)	16.2	18.8	20.8	24.1
Adjusted Cash EPS (INR)	25.8	29.3	33.8	38.8
Dil. Price to Earnings Ratio (P/E) (x)	17.1	14.7	13.2	11.5
Price to Book Ratio (P/B) (x)	2.8	2.4	2.2	1.9
Enterprise Value / Sales (x)	1.1	1.0	0.8	0.7
Enterprise Value / EBITDA (x)	11.7	10.3	8.9	7.7
Dividend Yield (%)	0.6	0.7	0.7	0.9

Additional Data

Directors Data

Dharmpal Agarwal	Managing Director	Swaminatha Reddy Onteddu	Director
Vineet Agarwal	Managing Director	Vijay Sankar	Director
Jasjit Singh Sethi	CEO(KMP)	Susim Mukul Datta	Director
Ishwar Singh Sigar	CEO(KMP)	Satyanarayan Agarwal	Director
Ashish Kumar Tiwari	CFO(KMP)	Karna Singh Mehta	Director

Auditors - Brahmayya & Co.

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Canara Robeco Asset Management Co	3.78	IDFC Mutual Fund/India	3.10
Dimensional Fund Advisors LP	0.98	GIC Asset Management Co Ltd	0.61
JPMorgan Chase & Co	0.51	HDFC Asset Management Co Ltd	0.26
LIC Nomura Mutual Fund Asset Manag	0.20	IDBI Asset Management Ltd	0.19
Sundaram Asset Management Co Ltd	0.08	State Street Corp	0.03

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

India Midcaps

INITIATING COVERAGE

BLUE DART EXPRESS

Losing ground

India Equity Research| Logistics

Edelweiss
Ideas create, values protect

Blue Dart Express (BDE) is the market leader in India's air express market with 50% plus share. However, we expect the stock to face challenges on growth, profitability and valuations as: 1) the air express category continues to lose share to road express; 2) BDE will continue to face challenges in sustaining margin given the challenging cost environment; and 3) it is likely to remain in an earnings downgrade cycle given the high expectations built by consensus. Hence, initiate coverage with 'REDUCE' and target price of INR2,200 (based on PE of 30x on FY20E).

Air express losing ground to road express

A structural shift is underway in the domestic express industry wherein market share is shifting from air to road express due to reducing transit times and relative pricing disparity. This has hurt BDE's air express business over the past three years and we expect the challenges, due to the shift, to sustain for BDE.

Profitability challenges ahead; downgrade cycle likely to continue

BDE's air express business is facing rising operating costs due to increasing network operating cost and higher fuel expenses. In our view, this will remain a challenge in terms of sustaining margin in the air express business. We also believe that earnings will decline in FY19. Over the past two years, BDE's earnings have been consistently downgraded due to earnings miss; we expect it to remain in the earnings downgrade cycle for some more time. Further, we find BDE's FY19/20 PE valuation of 64x/40x expensive given FY18-20E EPS CAGR of mere ~10% and FY18-25E EBITDA CAGR of 12%.

Outlook and valuations: Optimism priced in; initiate with 'REDUCE'

We initiate with **'REDUCE'** on BDE with TP of INR2,200 based on PE of ~30x FY20E EPS. Our assigned PE is based on implied FY18-25E earnings CAGR of ~12% and BDE's expected steady state RoE of 25-30%. BDE currently trades at FY19/20E PE of 64x/40x, implying ~15% long-term earnings CAGR, which is demanding.

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	27,992	31,661	34,823	38,295
EBITDA (INR mn)	3,513	2,855	4,210	4,679
Adjusted Profit (INR mn)	1,447	1,097	1,760	1,967
Adjusted Diluted EPS (INR)	61.0	46.2	74.2	82.9
EPS growth (%)	*3.5*	*(24.2)*	*60.4*	*11.7*
P/E (x)	51.0	67.3	41.9	37.5
EV/EBITDA (x)	21.5	26.6	17.9	15.8
ROAE (%)	30.1	19.3	26.3	24.5

EDELWEISS RATINGS

Absolute Rating	**REDUCE**
Investment Characteristics	Value

MARKET DATA *(R: BLDT, B: BLDT IN)*

CMP	: INR 3,100
Target Price	: INR 2,200
52-week range (INR)	: 4,815 / 2,620
Share in issue (mn)	: 23.7
M cap (INR bn/USD mn)	: 74 / 1,032
Avg. Daily Vol. BSE/NSE ('000)	: 10.1

SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	75.0	75.0	75.0
MF's, FI's & BKs	6.5	6.4	5.8
FII's	5.6	5.6	6.7
Others	12.8	13.0	12.5

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	3.1	12.6	9.5
3 months	(8.2)	(12.6)	(4.4)
12 months	4.9	(25.3)	(30.2)

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November 26, 2018

Investment Rationale

BDE is the market leader in India's air express market with 50% plus share and reasonable presence in the surface express market. While the company's primary business is air express (accounts for three-fourth turnover), balance is from surface express.

We initiate coverage on BDE with 'REDUCE' recommendation based on the following:

1. **Shift from air to road:** We believe, a structural shift is underway within the domestic express industry—market share is shifting from air to road express due to reducing transit times and relative pricing disparity. This has hurt BDE's air express business over the past three years and challenges due to this shift will continue, in our view. While the company's road express segment is estimated to grow faster (15-18% CAGR), it is unlikely to boost overall earnings due to this segment's minuscule contribution.
2. **Challenging cost environment:** BDE's air express business has seen rising operating costs due to ballooning network operating costs and higher fuel expenses. In our view, this will remain a challenge in terms of sustaining margin in the air express business. In our view, FY19 is unlikely to see any earnings growth.
3. **Market expectations of earnings and valuations:** Over the past two years, BDE's earnings have been downgraded consistently due to shortfall in earnings growth. We believe, the company is likely to be in the earnings downgrade cycle for some more time. Further, we find its PE valuation of 64x/40x expensive considering the steady state RoE range of 25-30%, FY18-20E EPS CAGR of only ~10% and FY18-25 estimated EBITDA CAGR of ~12%.

Structural shift within express market will be a challenge

BDE is the market leader in the domestic air express market with 50% plus market share. However, we see a large structural shift occurring in India's domestic express market where road express is growing rapidly due to last mile connectivity and gains from air express market. Large road infrastructure development in India over the past five-six years has led to this shift within the sector.

This is evident in the growth rate of road and air express markets in India over the past six years. The domestic express market is pegged at ~USD2.7bn (our estimate for FY18 end). This overall market has clocked 16% CAGR over the past six years. However, within this, while road express has posted 22% CAGR, the air express market has posted only 6% CAGR. Our analysis also indicates that road, which accounted for 57% of the overall express market in FY12, now stands at ~73%, indicating share gain of 15-16%.

Going forward, we estimate the overall market to clock 16-17% CAGR, but we expect road express to keep outpacing air express growth due to reducing transit times and attractive pricing.

Chart 1: Road express significantly outpacing air (INR bn)

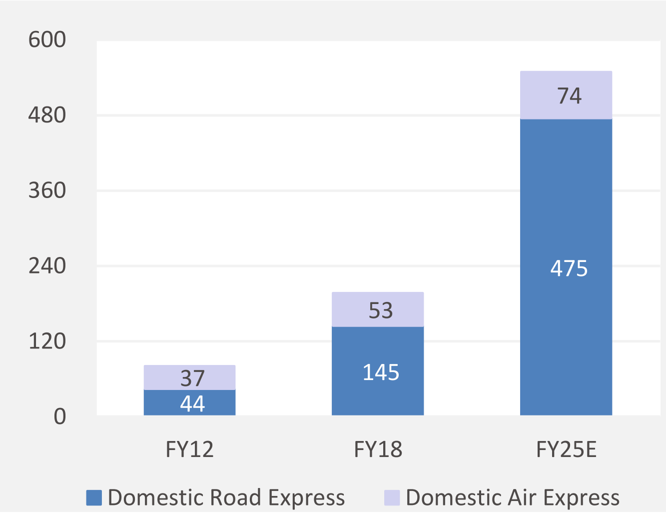
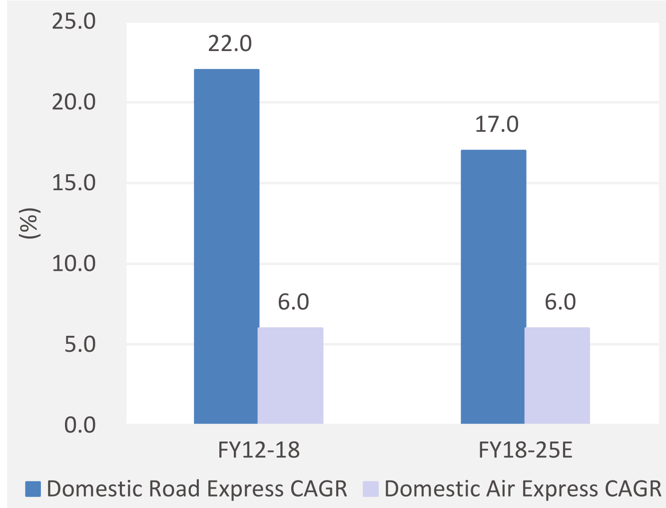


Chart 2: Air express sector growth rates remain low



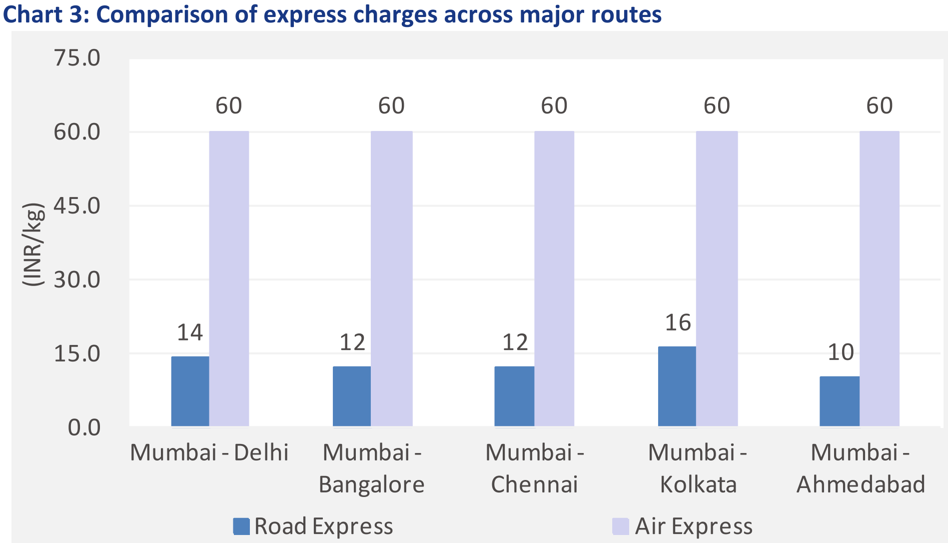
Source: Company data, Edelweiss research, Edelweiss estimates

Pricing disparity is now critical deciding factor

Air freight charges are nearly 5-6x higher than road surface express. With increased airport charges and aviation fuel costs, the cost of transporting goods via air is structurally getting more expensive. In our view, though cost of operations will increase for surface express as well due to recent higher fuel expenses, the existing disparity between air and surface pricing will hurt air express more.

Also, we note that while only a few express players own their cargo aircrafts, others rely on belly cargo of passenger flights. Consequently, we expect the air express market to grow at a slower than industry pace of 5-6% p.a. even as surface express clocks 17-18%. We see customers shifting from air to surface due to this big pricing disparity and reducing delivery time.

Chart 3: Comparison of express charges across major routes



Source: TCI Express, Blue Dart, Edelweiss estimates

Reducing transit times on road is challenging air

Positive reforms and increase in road connectivity have reduced the overall transportation time. Further, facilities such as real-time tracking, logistics management apps, etc., have already led to significant reduction in surface transit time. Thus, decreasing delivery time and cost benefits, we believe, will lead to shift from air to surface express segment.

Mix of express cargo is turning favourable for road express

We see another trend within the express market—shift to heavier loads from documents. Traditionally, the express delivery segment was used to transport documents and high value but low weight parcels. Express services are now used for not just sending across documents (typically under 500gms; government and bank related), but also non-document parcels such as machine spares, e-commerce packages, equipment, etc. The share of documents in the domestic express segment in terms of value is now less than 20% and it is further reducing. Due to increased penetration of internet, demand for delivery of time sensitive documents has slowed down.

Chart 4: Consignments over 2kg constitute ~50%

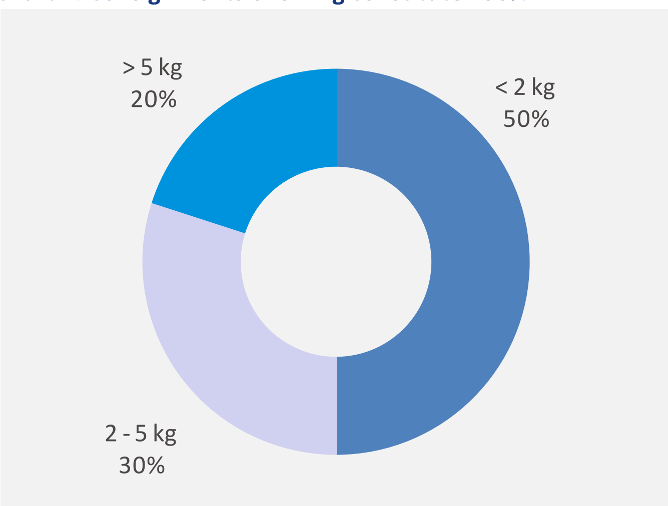
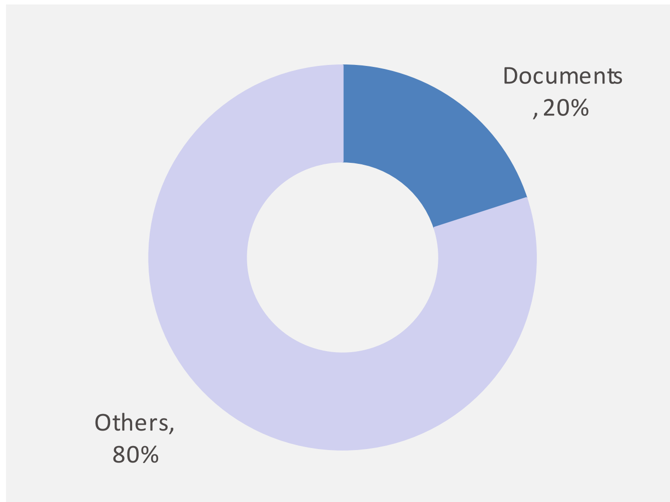


Chart 5: Non-documents account for over 80%

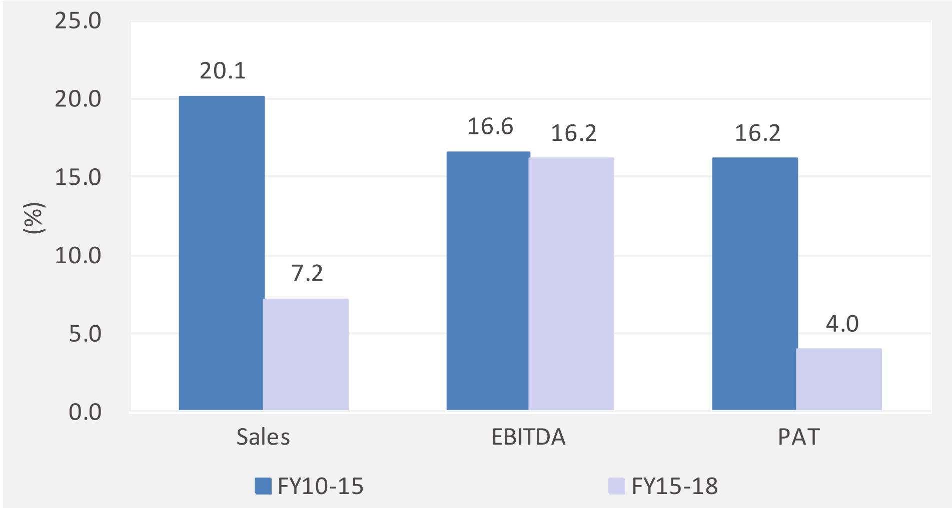


Source: Edelweiss research

BDE bearing the brunt of intra-sector shift

In line with the above trends, BDE's growth rates have deteriorated due to the structural shift within the sector. During FY10-15, the company clocked 20% sales CAGR; however, over FY15-18 it slowed down to 7%. This slowdown, coupled with cost increase, has meant that net profit CAGR was also low for FY15-18 at ~4% versus 16% CAGR during FY10-15.

Chart 6: BDE's sales and earnings momentum has slowed down post FY15



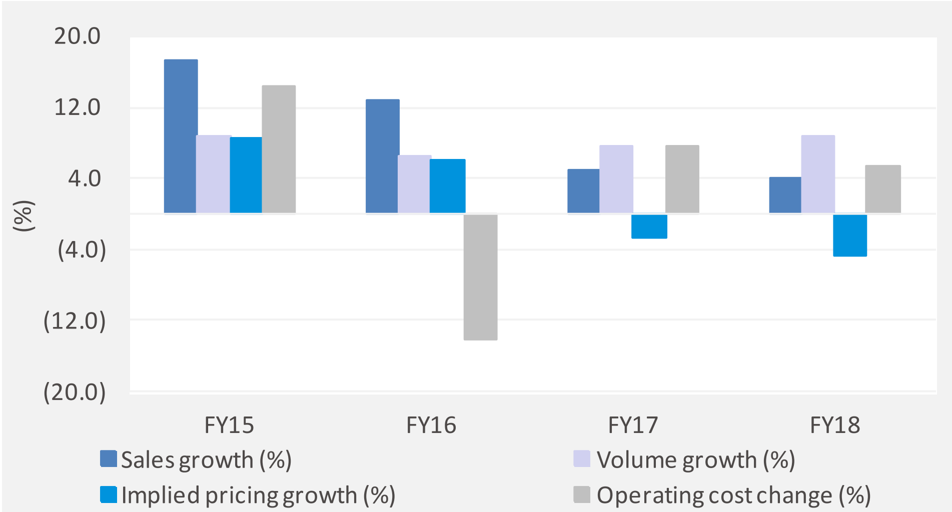
Source: Company, Edelweiss estimates

Cost structure limiting margin expansion

BDE's cost structure includes some large expenses such as domestic network costs and international servicing charges which have increased steadily over the past few years. Further, in the past two quarters, air fuel costs have also risen due to rising crude oil prices. Against this, BDE's pricing has improved only marginally, especially over the past two years.

In our estimate, FY19 will be a challenging year overall. We estimate EBITDA margin to fall to 9.0% from 12.5% in FY19E and as a result FY19E PAT will decline YoY. At the group level, we estimate 13%/10% sales growth in FY19/20E; however, the challenging cost structure should lead to a fall in net profit in FY19.

Chart 7: Pricing has suffered in the past three years as per our estimates



Source: Company, Edelweiss estimates

Chart 8: EBITDA margin will continue to be under pressure (%)

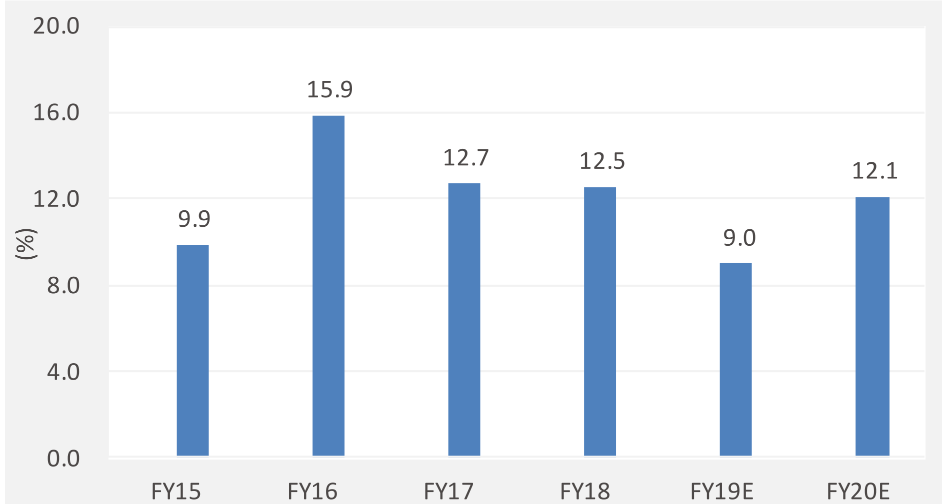


Chart 9: EBITDA per kg of weight transported remains muted (INR/kg)

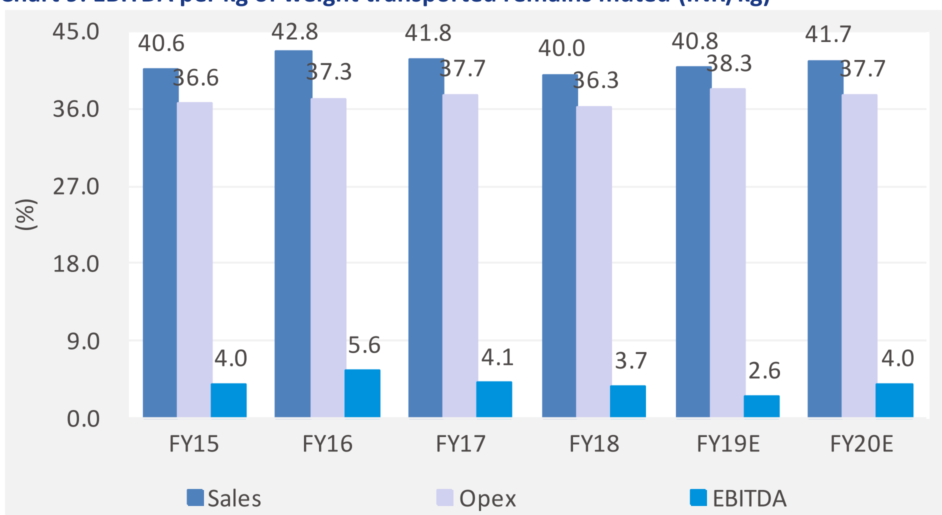
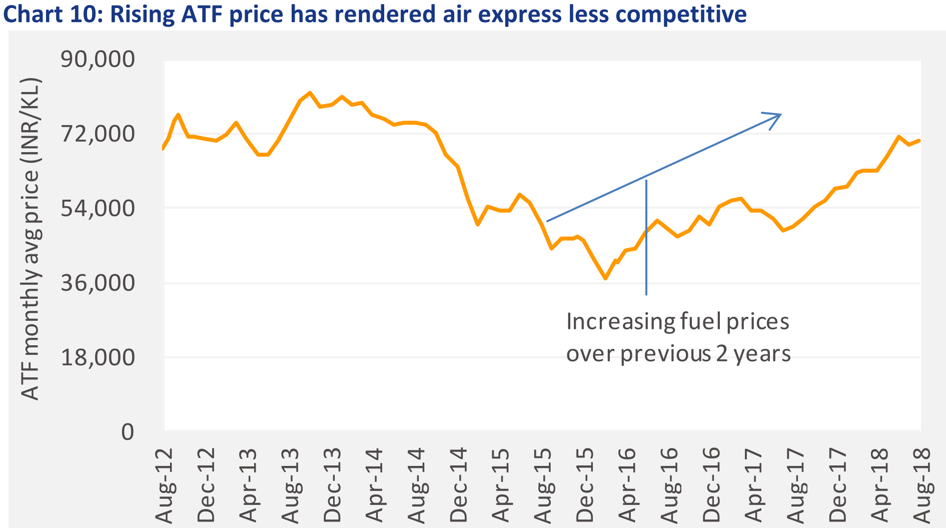


Chart 10: Rising ATF price has rendered air express less competitive



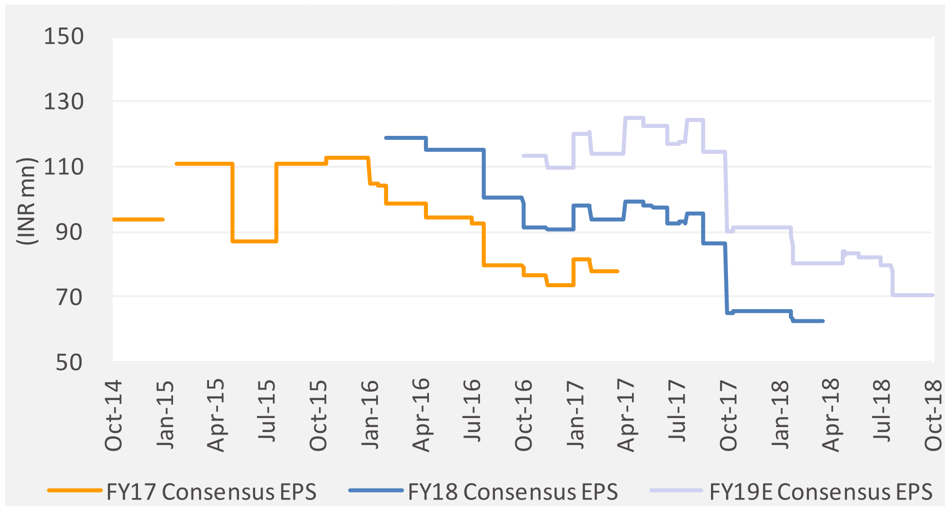
Source: Bloomberg, Edelweiss research

Earnings downgrade cycle likely to continue

We note that over the past three years, the Street has been consistently highly optimistic about BDE's earnings growth. It also shows that the consensus has been under-estimating the share loss to road surface as well as the negative impact on margin of rising operating costs. As seen in charts below, since FY17, consensus earnings have been optimistic since the start of the year and then been consistently downgraded.

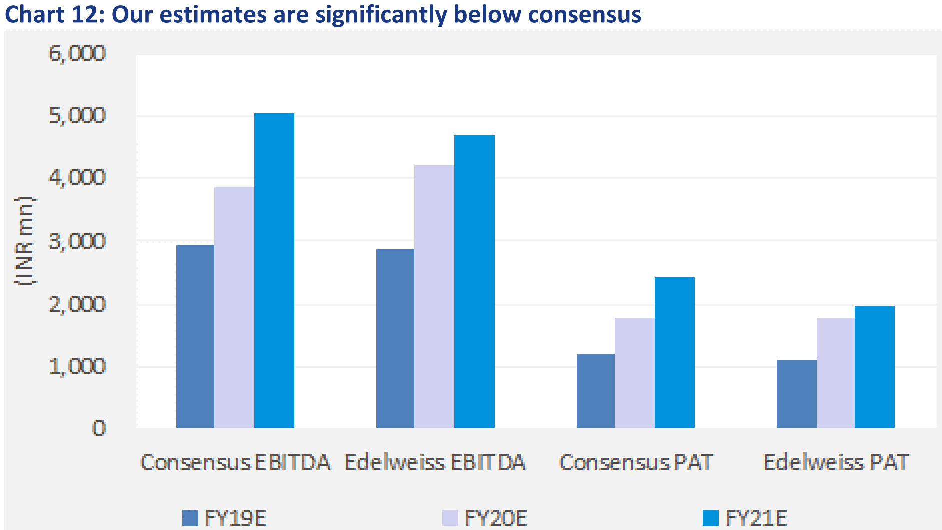
We expect similar scenario in FY19 and FY20 consensus earnings estimates as these seem to factor 45%/35% EPS, which we believe will be difficult to achieve. Our FY19/20/21 EPS estimates are 9%/2%/18% lower than Street's estimates.

Chart 11: Consistent earnings downgrades since FY17 on the Street



Source: Company, Edelweiss estimates

Chart 12: Our estimates are significantly below consensus



Source: Bloomberg, Edelweiss research

Valuation

Expensive on optimistic estimates

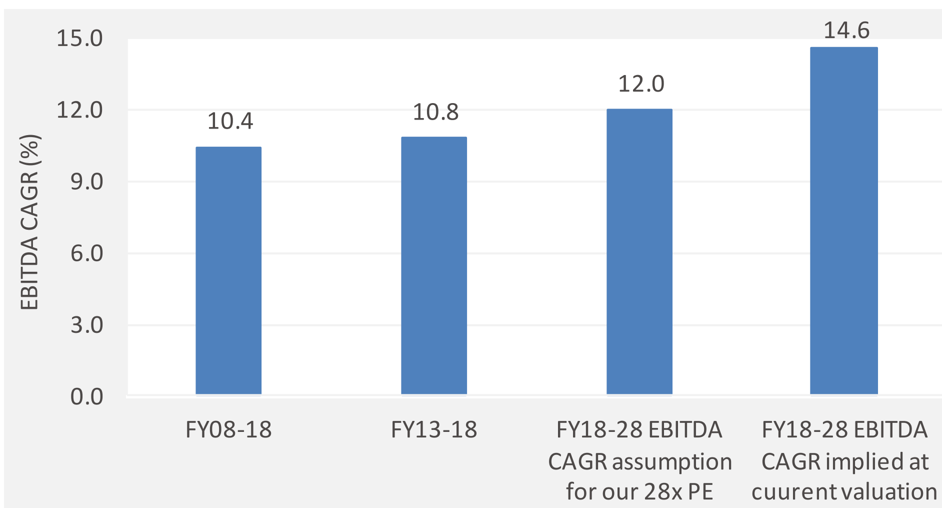
Broadly, we believe that India's express industry is structural in growth; however, in the past four-five years, the air express segment now has some cyclical element in its margin and volume growth. While road surface is clearly structural and warrants a cash flow-based valuation approach, air express has experienced either margin dip or volume impact (assuming costs were passed through) in periods of rising costs. As a result, we opt to value BDE on relative basis using PE multiple.

We value BDE on one-year forward PE of 30x, which gives us our one-year target price of INR2,200. Our target price implies 26% downside from the current level and hence we initiate with **'REDUCE'** recommendation. Our rationale for assigning a fair PE multiple of 30x is based on our 10-year implied earnings CAGR analysis. Based on the mix of air and road express earnings, we estimate that BDE should realistically clock ~12% EBITDA CAGR for FY18-28 and this implies valuing BDE at a one-year forward PE of 30x.

What growth is current valuation reflecting?

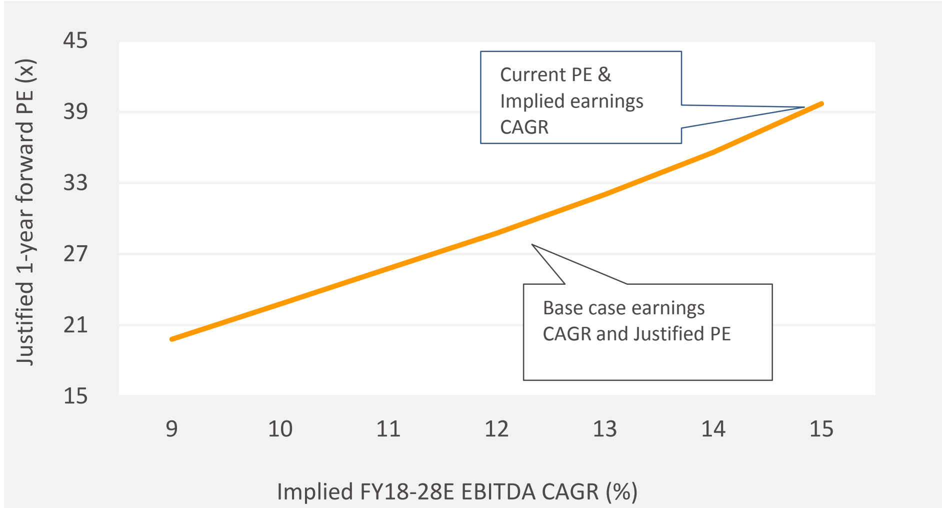
Currently, the stock trades at PE of 67/42x on FY19/FY20 EPS, which we believe is expensive and implies 10-year EBITDA CAGR of nearly 15%, which may be a tall ask, in our view. Note that we assume 12% CAGR for our assigned PE multiple, but we highlight that FY13-18 EBITDA CAGR was mere 11%.

Chart 13: EBITDA growth built in current valuation has not been seen historically



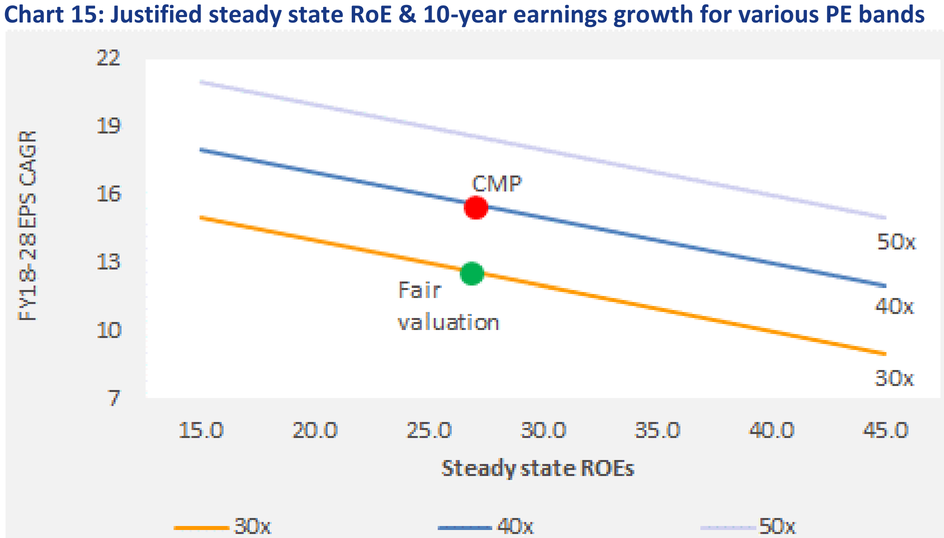
Source: Company, Edelweiss research

Chart 14: Current PE imply 15% earnings CAGR for the next few years



Source: Edelweiss research

Chart 15: Justified steady state RoE & 10-year earnings growth for various PE bands



Source: Edelweiss research

Key Risks

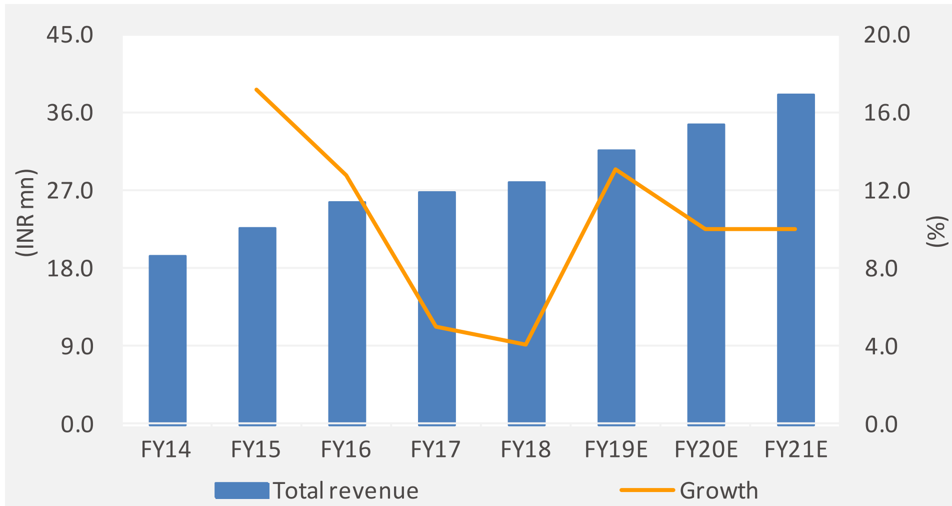
- Our core thesis is that road express will continue to gain market share from air express. As a result, we assume air express segment in India to post 6% CAGR. If the segment growth is more than 7%, then it poses upside risks to our estimates and TP and hence a risk to our thesis.
- Our estimates and target price are based on oil price assumptions which are around the current level. Any sharp fall in oil price will create upside risks to our estimates and thesis.
- Historically, domestic network operating costs have structurally risen. But, a fall in these costs will pose upside risks to our thesis and margin assumptions.

Financial Outlook

Revenue growth with falling margin on rising fuel, INR depreciation

BDE clocked ~14% revenue CAGR during FY14-18. Driven by ~8% volume growth and higher realisation per tonne of ~2%, we estimate the company's FY18-21 revenue to grow 9-11%.

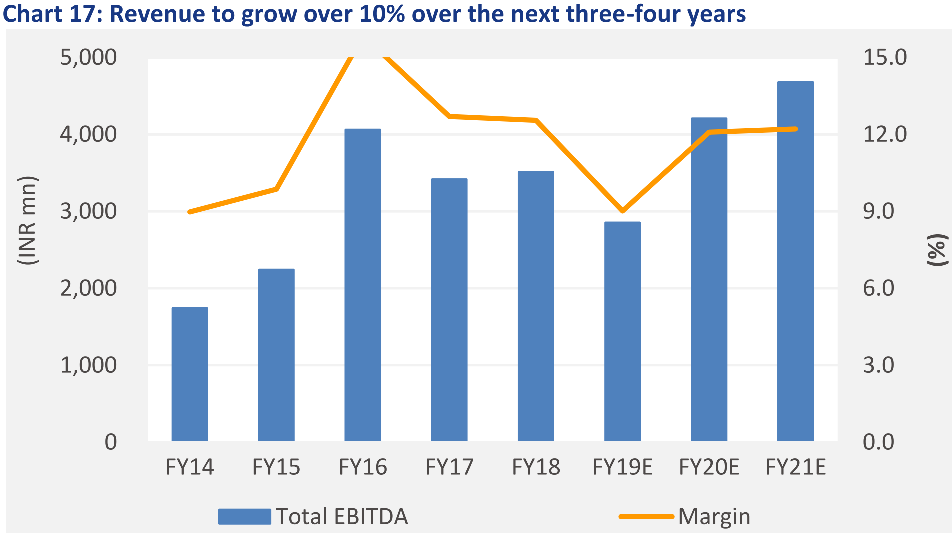
Chart 16: Revenue to grow over 10% over the next three-four years



Source: Company, Edelweiss research

EBITDA and PAT margins have ranged between 9-13% and 5-7% during FY14-18, respectively. Due to depreciating INR and rising fuel prices, we have assumed lower margin for EBITDA (9-12%) and PAT (4-5%) over FY19-21. We believe, there is significant downside adjustment possibility to these estimates and our numbers as well on account of fuel cost pressure and currency depreciation.

Chart 17: Revenue to grow over 10% over the next three-four years



Source: Company, Edelweiss research

Chart 18: Consolidated sales FY16-21E (INR bn)

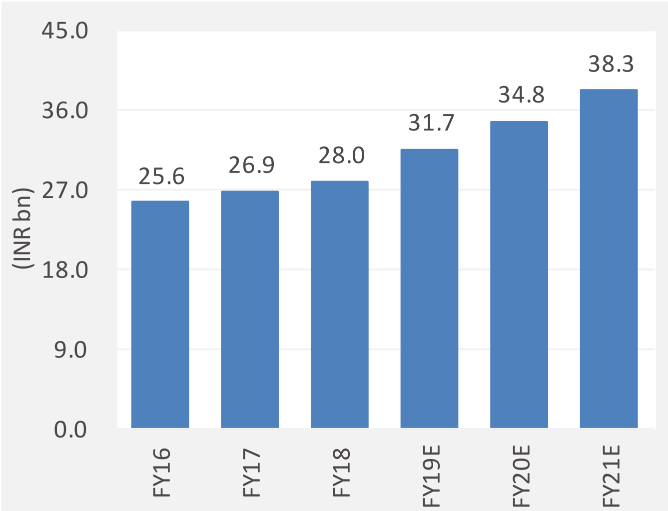


Chart 19: Consolidated EBITDA FY16-21E (INR bn)

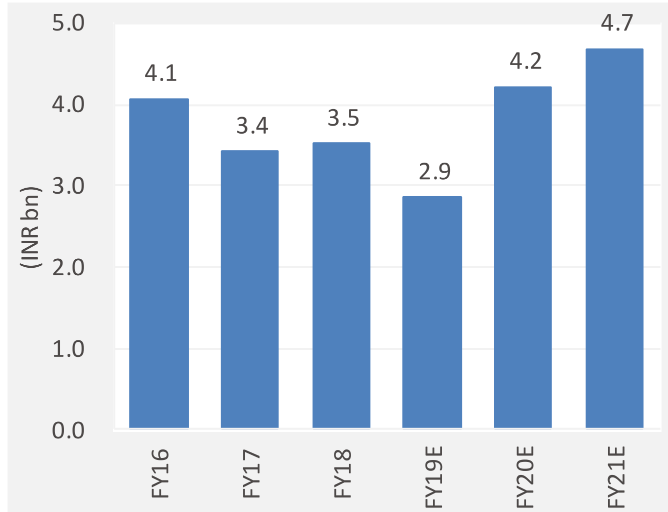


Chart 20: EBITDA margin FY16-21E (%)

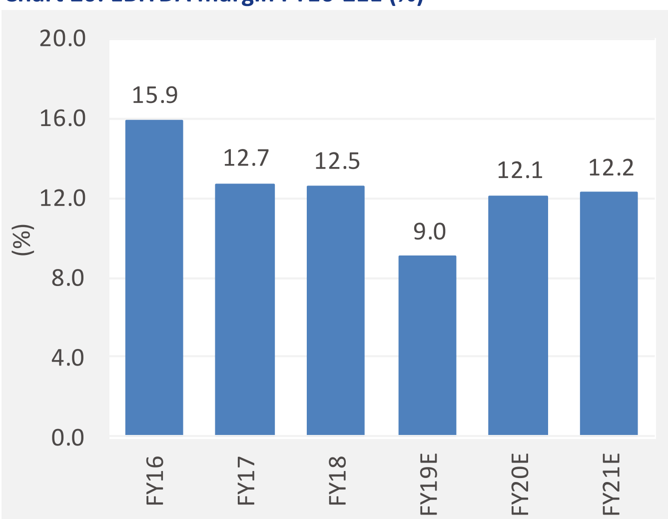


Chart 21: RoE profile FY17-21E (%)

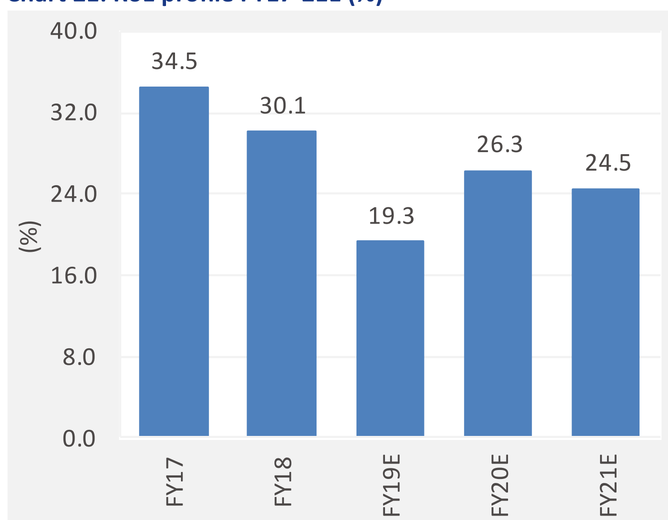


Chart 22: RoE profile FY17-21E (%)

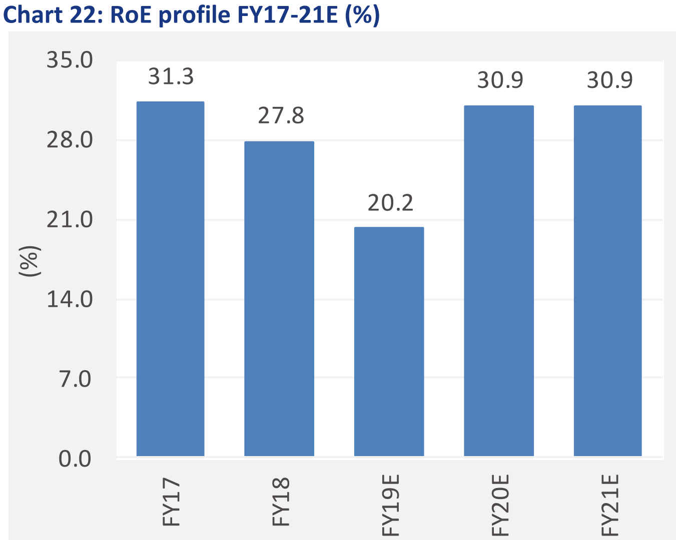
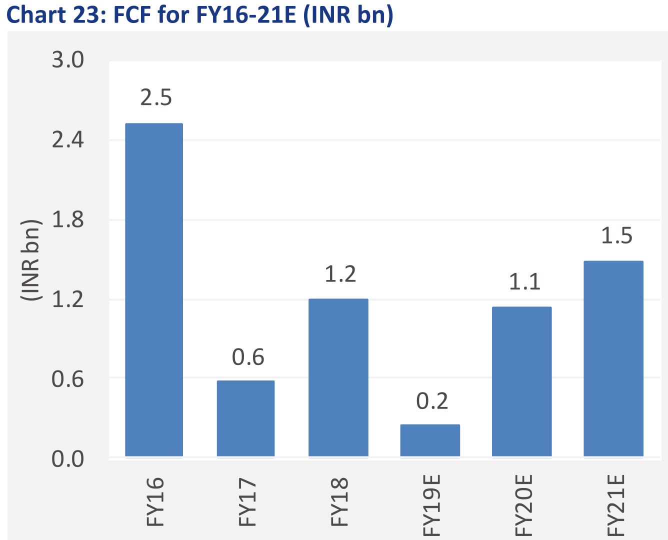


Chart 23: FCF for FY16-21E (INR bn)



Source: Company, Edelweiss estimates

Company Description

BDE is a courier and integrated air express package distribution company covering over 35,000 locations in India. It is part of the DPDHL Group—a global brand in logistics distribution services that covers over 220 countries and territories worldwide. The company has only one operating segment, which is 'integrated air and ground transportation and distribution'.

BDE has a fleet of six B-757 freighters with a total capacity of 425tonnes, making it the leading air express carrier in India. Further, to service over 35,000 locations in India over 11,000 outsourced freight vehicles are used. The company has a network of 21 ground hubs and 250 network routes. Based on the company's estimates, as of FY18, BDE had an air express market share of 47.7% and a ground express market share of 14.4%.

Table 1: Key milestones

Year	Milestone
1983	Clyde Cooper, Tushar Jani and Khushroo Dubash set up Blue Dart with a capital base of ₹ 30,000/-. They introduced India's first international air package express service.
1991	Blue Dart Express gets registered as a private limited company and introduced its economical logistics service option, Dart Surfaceline. Cosmat-ITM, an indigenous domestic tracking system was also developed that year.
1994	Blue Dart Express Ltd. goes public with an equity offer of 2.55 million shares, at a premium of 14 times, worth ₹ 382.5 million. Blue Dart Express Ltd., launched Dart Apex (Domestic Air Package Express), a multi-modal, premium package delivery service and Cosmat-IITM, an advanced system which includes track and trace.
1995	Blue Dart Aviation acquires 2 Boeing 737-200 freighters and receives ATO permission. SMARTTM (Space Management Allocation Reservations and Tracking) system - the first cargo management system in the country, is developed for Blue Dart's aircraft.
1996	Blue Dart Aviation launches India's first jet express airline. Blue Dart Express Ltd.'s turnover crosses the ₹ 1 billion mark, as it expands its domestic network by entering into strategic alliances in North, South and West India.
1997	Blue Dart Express Ltd. signs agreements with leading international airlines for distribution of bonded cargo within its network. Blue Dart Aviation also launches its domestic charter operations.
1998	Blue Dart Aviation develops India's first Load and Trim software for its B737-200 flights. Blue Dart Express Ltd. launches SMARTBOX, its economical, packaged door-to-door product, and extends its delivery to over 1,000 locations.
1999	Blue Dart Express Ltd. launches Power Dart 2000+, a software that provides customers free connectivity to its database, enabling customers to track and retrieve all information related to their shipments.
2000	Blue Dart Express Ltd. revamped its website to support e-trade and commerce and facilitate better customer interface on the net.
2001	Blue Dart launches its 3rd aircraft operations on the Bangalore-Delhi-Bangalore sector.
2002	Blue Dart is one of the few Indian companies to be re-certified to the new global ISO 9001 - 2000standards for "Design, management and operations of countrywide express transportation and distribution service within the Indian subcontinent and to international destinations serviced through multinational express companies". Blue Dart ends its contract with Federal Express and signs a path-breaking Sales Alliance with the World's No. 1 international air express company, DHL Worldwide Express. Blue Dart crosses 100,000 shipments per day.
2003	Blue Dart acquires its 4th Boeing 737 freighter. With a focus on strengthening infrastructure, Blue Dart establishes 12 of its own offices in the South, added an additional 198 locations to its delivery network, expands its hub at Bhiwandi and sets up a bonded warehouse in Mumbai. Blue Dart is chosen as a 'Superbrand' from over 700 brands across 98 categories by a jury of eminent marketing and advertising professionals. The company celebrated 20 years of service to the nation on 19th November 2003.

Table 1: Key milestones (Contd...)

Year	Milestone
2004	Blue Dart inducts its 4th aircraft into operation on 17th May 2004, connecting Hyderabad as its 6th Aviation Hub, followed by the acquisition of its 5th Boeing 737 freighter the same year.
2005	DHL Express (Singapore) Pte. Ltd. acquires 81.03% of the equity capital of Blue Dart Express Limited. Blue Dart continues to operate as an independent brand, providing a complete spectrum of domestic and international express services through synergies with DHL.
2006	Blue Dart introduces the 1st Boeing 757 freighters in the Indian skies on 1st June 2006 with 2 of these aircraft connecting the 5 major metros of Delhi, Mumbai, Chennai, Bengaluru and Kolkata. A second flight was launched from Hyderabad while Ahmedabad became the 7th airport to join Blue Dart's network.
2007	Blue Dart launches its fortified Ground Express Service - Dart Surfaceline with time bound deliveries and features like DOD (Demand Draft on Delivery), FOD (Freight on Delivery) and FOV (Freight on Value) - Insurance Arrangement. Blue Dart invests in a 3rd Boeing B757 freighter.
2008	Blue Dart celebrated its Silver Jubilee - 25 years of operations in India. The first integrated Blue Dart-DHL facility was set up in Bangalore. Blue Dart inducts 4th Boeing B757 freighter.
2012	The company inducted its 5th B757-200 freighter into its fleet. To comply with statutory requirements, DHL reduced its stake in Blue Dart to 75%
2014	Blue Dart announces plans to launch a separate structure for e-tailing. Became a part of DPDHL's Post-eCommerce-Parcel (PeP) Division
2015	Acquired additional 21% stake in Blue Dart Aviation. Launched India's 1st Parcel Locker in Gurgaon. Launched Mobile Service Centres and Auto Sorters.
2016	Acquired its 6th Boeing 757-200 freighter.
2017	Blue Dart powers last-mile deliveries with electric vehicles in Gurgaon.

Table 2: Management overview

Key personnel	Profile
Mr Sharad Upasani	Mr. Sharad Upasani was appointed as the Chairman of the Board of Directors of the Company with effect from December 21, 2007. He has done Masters in Commerce and LLB from Mumbai University and also holds MBA degree from USA.
Chairman	He has worked as Secretary of Industry Department, Maharashtra State and as Managing Director of Maharashtra State Finance Corporation, Chairman of Maharashtra State Textile Corporation and Vice - Chairman of Maharashtra State Road Transport Corporation. He retired as Chief Secretary, Government of Maharashtra. At the Central level, he has worked in the Finance Ministry, Industry Ministry and Information & Broadcasting Ministry. He was also Chairman of the Company Law Board and Chairman of the Bureau of Costs and Prices, New Delhi. He was also Chairman of Film Certification Board, Mumbai and Vice-Chancellor of Agricultural University, Akola, Maharashtra.
	He was also on deputation to International Monetary Fund, Washington from 1974 to 1978. He is a member of Bar Council of Maharashtra and Goa.
Mr. Anil Khanna	Mr. Anil Khanna has 38 years of experience in various industries and has been with Blue Dart since 1992. He moved to the position of Managing Director from his earlier position as Senior Vice President - Western Region.
Managing director	Anil is a graduate from St Stephen's College, Delhi and holds an MBA degree in Marketing and Finance from UBS, Chandigarh.
Mr. Malcolm Monteiro	Malcolm Monteiro is CEO - DHL eCommerce, Asia Pacific with effect from April 1, 2014. Prior to his present role, he acted as a CEO DHL Express South Asia since 2007. He holds a post-graduate degree in Management from IIM, Ahmedabad, and is a graduate in Electrical Engineering from IIT, Mumbai.

Source: Company

Financial Statements

Key assumptions

Year to March		FY18	FY19E	FY20E	FY21E
Macro	GDP(Y-o-Y %)	6.7	7.3	7.6	7.6
	Inflation (Avg)	3.6	4.5	5.0	5.0
	Repo rate (exit rate)	6.0	6.8	6.8	6.8
	USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector					
Express industry size (UDS bn)		3.6	4.2	4.8	5.5
Air express industry (UDS bn)		1.6	1.7	1.8	2.0
Company					
Total tonnes carried in weight gr		8.7	8.0	8.0	8.0
Average Weight of every shipme		3.5	3.5	3.5	3.5
Express/Courier Rates per kg (IN		40	41	42	42
Sales growth (%)					
Consolidated sales growth		4.1	13.1	10.0	10.0
EBITDA margins (%)					
Consolidated EBITDA margin		12.5	9.0	12.1	12.2
Cost and financial assumptions					
Gross margins (%)		47.2	34.4	36.7	36.1
Other expenses (%)		13.7	10.5	10.5	10.5
EBITDA margins (%)		12.5	9.0	12.1	12.2
Capex (INR mn)		(1,974)	(2,100)	(2,100)	(2,100)
Net borrowings (INR mn)		1,774	2,067	1,386	192
Receivable (days)		56	56	55	55
Inventory (days)		0	0	0	0
Payable (days)		49	49	48	48
Cash conversion cycle (days)		7	7	7	7

Income statement (INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Net revenues	27,992	31,661	34,823	38,295
Operating expenses	14,789	20,783	22,048	24,474
Employee Benefit Expenses	5,845	4,703	4,907	5,112
Other expenses	3,846	3,320	3,658	4,029
Total expenditure	24,480	28,806	30,613	33,616
EBITDA	3,513	2,855	4,210	4,679
Depreciation & amortisation	1,145	1,229	1,547	1,865
EBIT	2,368	1,626	2,663	2,814
Less: Interest Expense	405	307	210	182
Add: Other income	207	205	183	322
Profit before tax	2,170	1,523	2,637	2,955
Provision for tax	723	426	877	988
Reported Profit	1,447	1,097	1,760	1,967
Adjusted Profit	1,447	1,097	1,760	1,967
No. of Shares outstanding (mn)	23.7	23.7	23.7	23.7
Adjusted Basic EPS	61.0	46.2	74.2	82.9
No. of Dilu. Sha. Outstand.(mn)	23.7	23.7	23.7	23.7
Adjusted Diluted EPS	61.0	46.2	74.2	82.9
Adjusted Cash EPS	108.8	98.0	139.4	161.5
Dividend per share (DPS)	15.0	12.0	18.0	20.0
Dividend Payout Ratio (%)	24.6	26.0	24.3	24.1

Common size metrics (% net revenues)

Year to March	FY18	FY19E	FY20E	FY21E
Other Expenses	13.7	10.5	10.5	10.5
EBITDA margins	12.5	9.0	12.1	12.2
EBIT margin	8.5	5.1	7.6	7.3
Interest	1.4	1.0	0.6	0.5
Net profit margin	5.2	3.5	5.1	5.1

Growth metrics (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	4.1	13.1	10.0	10.0
EBITDA	2.8	(18.7)	47.5	11.1
PBT	(1.0)	(29.8)	73.1	12.1
Adjusted Profit	3.5	(24.2)	60.4	11.7
EPS	3.5	(24.2)	60.4	11.7

Balance sheet				(INR mn)
As on 31st March	**FY18**	**FY19E**	**FY20E**	**FY21E**
Share capital	238	238	238	238
Reserves & surplus	5,081	5,820	7,081	8,500
Shareholder equity	5,318	6,058	7,318	8,738
Minority interest	0	0	0	0
Long term borrowings	3,087	2,687	2,287	1,887
Short term borrowings	974	25	25	25
Total Borrowings	4,061	2,712	2,312	1,912
Long Term Lia.& Provisions	207	207	207	207
Deferred Tax Liability (net)	(387)	(387)	(387)	(387)
Sources of funds	**9,199**	**8,590**	**9,450**	**10,470**
Gross Block	6,956	9,056	11,156	13,256
Net Block	4,648	5,519	6,072	6,307
Capital work in progress	593	593	593	593
Intangible assets and Goodwill	934	934	934	934
Total net fixed assets	6,175	7,046	7,599	7,834
Other non-current assets	1,066	1,066	1,066	1,066
Cash and cash equivalents	2,287	645	926	1,720
Inventories	213	254	275	299
Sundry Debtors	4,223	4,568	5,032	5,542
Other Current Assets	666	666	666	666
Total Current Assets (ex cash)	5,111	5,569	5,983	6,399
Trade payable	3,684	3,979	4,367	4,792
Other CL & Short Term Prov.	1,756	1,756	1,756	1,756
Total CL & Provisions	5,440	5,736	6,123	6,549
Uses of funds	**9,199**	**8,590**	**9,450**	**10,470**
Book Value per share (INR)	224	255	308	368

Free cash flow

Year to March	FY18	FY19E	FY20E	FY21E
Reported Profit	1,447	1,097	1,760	1,967
Add: Depreciation	1,145	1,229	1,547	1,865
Add:Interest	271	206	141	122
Add: Others	698	(283)	(310)	(480)
Gross cash flow	3,561	2,249	3,138	3,474
Less: Changes in WC	394	(90)	(98)	(109)
Operating cash flow	3,167	2,339	3,236	3,583
Less: Capex	(1,974)	(2,100)	(2,100)	(2,100)
Free Cash Flow	1,194	239	1,136	1,483

Cash flow metrics

Year to March	FY18	FY19E	FY20E	FY21E
Operating cash flow	3,167	2,339	3,236	3,583
Financing cash flow	(1,519)	(2,085)	(1,039)	(1,011)
Investing cash flow	(1,898)	(1,895)	(1,917)	(1,778)
Net cash flow	(250)	(1,642)	280	794
Capex	(1,974)	(2,100)	(2,100)	(2,100)
Dividends paid	(428)	(429)	(429)	(429)

Profitability ratios

Year to March	FY18	FY19E	FY20E	FY21E
EBITDA margin	12.5	9.0	12.1	12.2
Pre-tax Return on Capital Emplo	27.8	20.2	30.9	30.9
Return on Average Equity (ROAE)	30.1	19.3	26.3	24.5
ROA (%)	15.7	12.3	19.5	19.7
Current ratio	1.4	1.1	1.1	1.2
Quick ratio	0.9	0.9	0.9	0.9
Cash ratio	0.4	0.1	0.2	0.3
Receivable turnover (x)	6.5	6.5	6.6	6.6
Payables turnover (x)	7.5	7.5	7.6	7.6
Receivables (days)	56.2	55.9	55.2	55.3
Payables (days)	49.0	48.7	47.9	47.8
Cash conversion cycle (days)	7.2	7.2	7.3	7.5
Net Debt/Equity	0.3	0.3	0.2	0.0
Debt/EBITDA	1.2	0.9	0.5	0.4
Adjusted debt/Equity (x)	0.8	0.4	0.3	0.2
LT debt / Capital employed (%)	33.6	31.3	24.2	18.0
Total debt / Capital emp. (%)	44.1	31.6	24.5	18.3
Interest coverage (x)	5.8	5.3	12.7	15.5

Operating ratios (x)

Year to March	FY18	FY19E	FY20E	FY21E
Total asset turnover	3.0	3.6	3.9	3.8
Fixed asset turnover	5.3	5.3	5.2	5.4
Equity turnover	5.8	5.6	5.2	4.8

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adjusted Diluted EPS (INR)	61.0	46.2	74.2	82.9
Y-o-Y growth (%)	3.5	-24.2	60.4	11.7
Adjusted Cash EPS (INR)	108.8	98.0	139.4	161.5
Diluted Price to Earnings Ratio (I	51.0	67.3	41.9	37.5
Price to Book Ratio (P/B) (x)	13.9	12.2	10.1	8.4
Enterprise Value / Sales (x)	2.7	2.4	2.2	1.9
Enterprise Value / EBITDA (x)	21.5	26.6	17.9	15.8
Dividend Yield (%)	0.5	0.4	0.6	0.6

Additional Data

Director Data

Anil Khanna	Managing Director	Michael Mcmahon	Director
Aneel Gambhir	CFO(KMP)	Sharad Pandurang Upasani	Director
Yogesh Dharamvir Dhingra	CFO(KMP)	Tulsi Nowlakha Mirchandaney	Director
Malcolm Monteiro	Director	Narendra Pansukhlal Sarda	Director

Auditors - S.R. Batliboi & Associates LLP

**as per last annual report*

Holding – Top10

	Perc. holding		Perc. holding
Bright Star Investments Ltd	3.35	SBI Funds Management Pvt Ltd	0.59
Matthews International Capital Man	1.79	BlackRock Inc	0.5
ICICI Prudential Asset Management	1.57	HDFC Asset Management Co Ltd	0.46
ICICI Prudential Life Insurance Co	1.36	Caisse de Depot et Placement du Qu	0.44
Vanguard Group Inc/The	0.79	L&T Mutual Fund/India	0.43

**in last one year*

Holding – Top10

	Perc. Holding		Perc. Holding
Jagran media network	60.98	Hdfc asset managemen	8.78
Franklin resources	5.32	Icici prudential lif	5.22
Hdfc life insurance	2.27	Icici prudential ass	2.11
Icici lombard gen in	1.56	Reliance capital tru	1.43
Pari washington co p	1.41	Comgest s a	1.15

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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India Midcaps

INITIATING COVERAGE

CONTAINER CORPORATION

Waiting for Dedicated Freight Corridor boost

India Equity Research| Logistics

Edelweiss
Ideas create, values protect

Container Corporation (Concor) is India's largest container train operator with 74% market share. While container tonnage has been growing, consistent fall in lead distances has led to flat net tonne km during FY13-18. Concor has countered this stagnancy well during FY16-18 by ramping up double stack trains, leading to notable margin expansion, and we expect this to sustain. Dedicated Freight Corridor's (DFC) commissioning will certainly be a meaningful boost to volumes and efficiency post FY20, but we expect actual DFC volumes to be lower than the government's optimistic forecasts. We estimate that one-third of current valuation is DFC-related and while the downside is limited for current valuation, upsides will be moderate as well. Hence, initiate with 'HOLD' and INR736 target price.

Volumes struggling, but profitability perking up

Concor's freight volumes have clocked 5% CAGR over the past five years. However, reducing lead distances have led to flattish trend on tonne km basis. Concor, the market leader by a wide margin, has been successfully passing on rail haulage charges, which has led to 4-5% top-line annual growth in the past. Since FY16, the company's ability to ramp-up volumes on double stack trains has led to margin gains and we expect this to sustain. As a result, we estimate EPS CAGR of ~14% during FY18-20.

DFC: Highly anticipated trigger

After years of suffering, rail freight movement will get a meaningful boost once DFC is commissioned in FY21/22. Though the benefits are undebatable, the actual incremental volumes that DFC will add can be argued. Government estimates 100mmt plus of container tonnage post five years of DFC commissioning; we peg it at around 30-40mmt assuming a more realistic ramp up. This is still a meaningful addition to the system and Concor will be key beneficiary.

Outlook & valuations: Valuations capture upsides; initiate 'HOLD'

We value Concor's existing business at PE of 18x and DFC cash flows post FY21E on a cash flow valuation basis, leading to combined value of INR736. In our view, one third of current valuation comes from DFC. While current valuations have limited downside, we believe the upsides are moderate as well. Initiate with **'HOLD'.**

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	66,225	72,171	81,540	91,741
EBITDA (INR mn)	14,987	17,372	20,638	24,065
Adjusted Profit (INR mn)	10,637	12,101	13,720	16,027
Adjusted Diluted EPS (INR)	21.8	24.8	28.1	32.9
P/E (x)	30.9	27.2	24.0	20.5
EV/EBITDA (x)	20.7	17.8	14.8	12.3
ROACE (%)	14.8	16.2	17.0	18.6
ROAE (%)	11.7	12.5	13.3	14.5

EDELWEISS RATINGS

Absolute Rating	**HOLD**
Investment Characteristics	Growth

MARKET DATA *(R: CCRI BO, B: CCRI IN)*

CMP	: INR 670
Target Price	: INR 736
52-week range (INR)	: 750 / 541
Share in issue (mn)	: 487.4
M cap (INR bn/USD mn)	: 329 / 4,617
Avg. Daily Vol. BSE/NSE ('000)	: 735.7

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	54.8	54.8	54.8
MF's, FI's & BKs	13.9	9.6	10.6
FII's	26.6	25.6	25.2
Others	4.7	10.0	9.5

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	3.1	17.2	14.1
3 months	(8.2)	5.0	13.2
12 months	4.9	0.7	(4.2)

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November 26, 2018

Investment Rationale

Concor is India's largest container train operator with ~74% market share. While the company's container tonnage has been growing, consistent fall in lead distances has led to flat net tonne km during FY13-18. The company has countered this stagnancy well during FY16-18 by ramping up double stack trains, leading to notable margin expansion, and we expect this to sustain. DFC commissioning will certainly be a meaningful boost to volumes and efficiency post FY20, but we believe incremental volumes will be realistically lower than the government's forecasts. We estimate one-third of current valuation is DFC related and while the downside is limited for current valuations, upsides will be more moderate as well. As a result, we initiate with **'HOLD'** and INR736 target price.

Our neutral stance on Concor can be broadly summarised in four key points:

1. **Existing rail freight volumes:** Concor's container volumes in tonnage terms have been growing steadily over the past five years clocking ~5% CAGR. However, with increase in production and consumption centres rising along the routes, lead distances have fallen by 5-6% p.a. leading to a flattish trend (1-2% CAGR) in NTKM (tonne kms i.e. transportation of 1tonne goods for 1km). It has largely been the realisation increase of 5-6% CAGR which has driven sales growth. We expect this trend of flattish NTKM to continue for this existing line of business.

2. **Margin expansion potential through double stack:** Starting FY16, Concor has ramped up the number of double stack trains and in FY18 these contributed ~15% to volumes. This is a positive margin lever as seen in FY18, when margin expanded by about 150bps after several years of flat trend. In our view, Concor's margin will improve by a further 250bps in FY19E and FY20E collectively as the share of double stack trains rises further. As a result, during FY18-20, we estimate EBITDA CAGR of ~16% (9-10% sales growth + ~7% from margin expansion).

3. **DFC the big game changer?** Traditionally last in preference for railway routes, container trains can look forward to a boost in volumes and, more importantly, efficiency when DFC is commissioned in FY20/21E. In our view, improvement in efficiency and incremental volumes are not debatable; however, their quantum will be lower than forecasted by the government. For instance, DFCCIL believes that container traffic on DFC can be anywhere between 90mmt and 150mmt in about five years from DFC's commissioning. Now, assuming traffic will also shift from passenger railway tracks to DFC, we believe incremental volumes, over and above the 55mmt that Indian Railways transports currently, will realistically be around ~50mmt in best case scenario, that too by FY26E. In NTKMs, this growth will be lower. Our best case indicates 18-20% EBITDA CAGR for Concor for FY18-25E, but it hinges on two assumptions of timely DFC commissioning and seamless ramp-up in volumes.

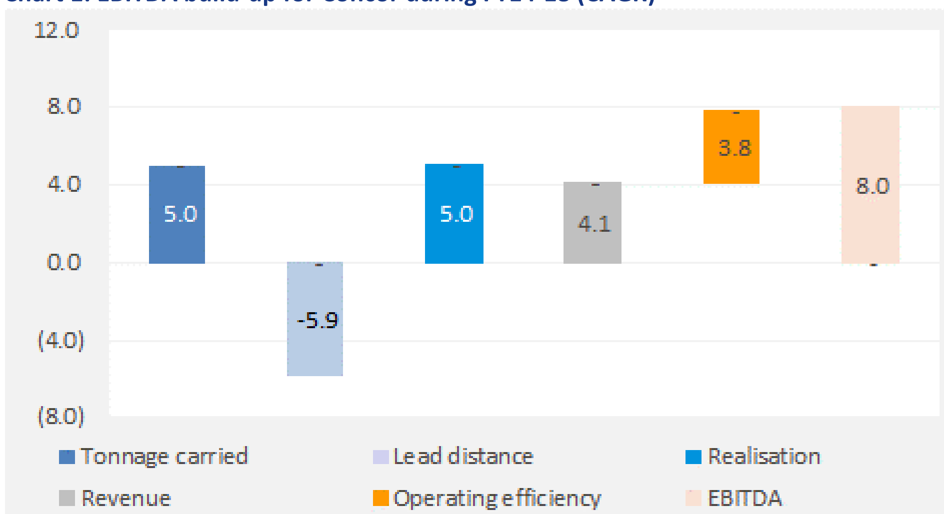
4. **Valuations—DFC optionality a large contributor:** We estimate that nearly one third of Concor's current valuation is from future cash flows from DFC volumes, which makes the current PEs look higher at 24x for a 12-13% RoE & 8-10% earnings growth business. Stripping off the DFC option value, the market seems to be valuing the existing business at ~15x PE and we believe the fair multiple should be around 18x (even after accounting volume shift to DFC post FY20). This gives moderate upside from current stock price, but these upsides look limited in our view. Hence, we initiate with **'HOLD'** recommendation on Concor.

Declining lead distances have offset tonnage growth

Concor has clocked steady volume growth of ~5% over the past five years—EXIM at 6% CAGR and 1% domestic CAGR. EXIM container rail volumes accounted for 82% of total volumes in FY18 and have been the primary volume growth driver. However, lead distances, especially in EXIM volumes, have been falling steadily as production and consumption centres have multiplied along the routes. This has led to flattish growth in NTKMs. We expect this trend to sustain till at least DFC gets commissioned. We estimate ~2% growth in NTKMs on a base tonnage growth of ~6% annually for FY18-20E.

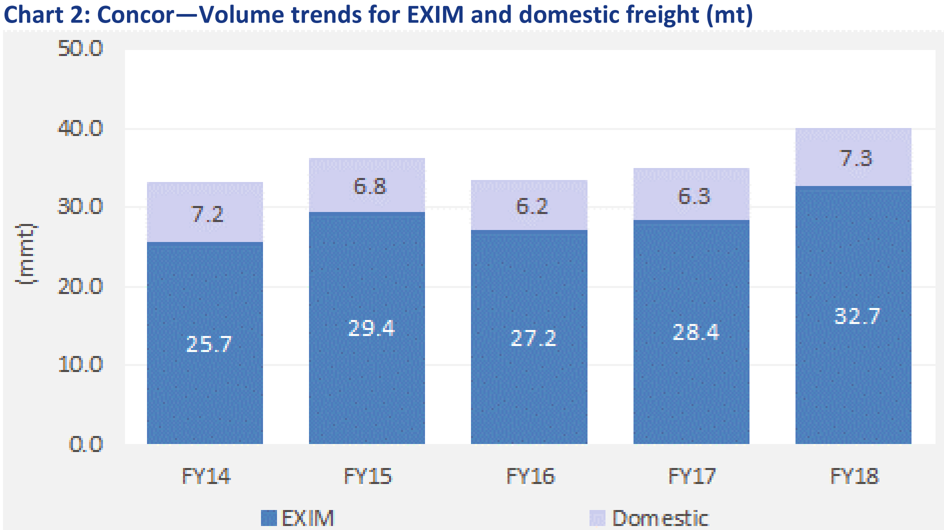
Concor's rail freight revenue has still clocked 6% CAGR over the past five years and this has predominantly been due to the annual increase in realisation. The company has been able to successfully absorb the increase in haulage charges imposed by Indian Railways and as a result, realisation per tonne has risen at 5-6% CAGR. As a market leader, we expect Concor to absorb the rail haulage charges and estimate 5-6% annual increase in realisation.

Chart 1: EBITDA build-up for Concor during FY14-18 (CAGR)



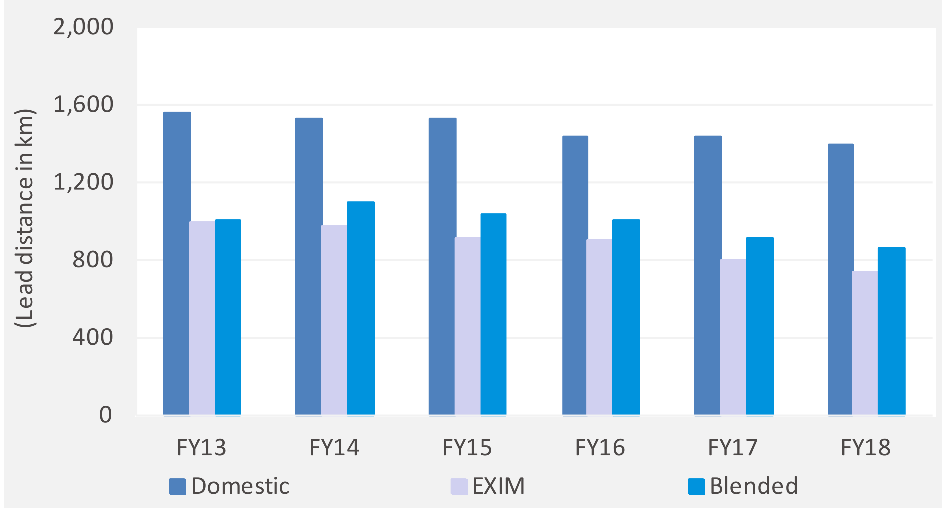
Source: Company, Edelweiss research

Chart 2: Concor—Volume trends for EXIM and domestic freight (mt)



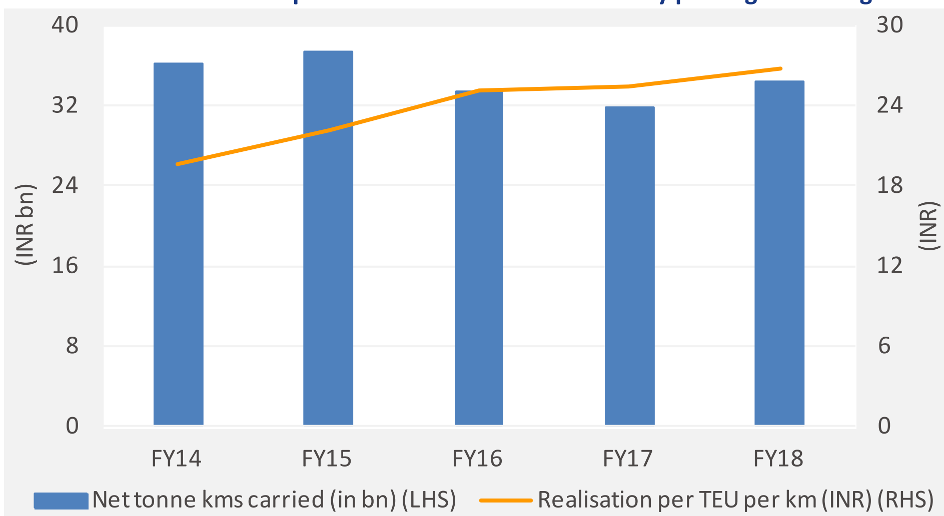
Source: Company

Chart 3: Lead distance/tonne carried has consistently fallen (km per tonne carried)



Source: Company, Edelweiss research

Chart 4: Realisation has improved due to Concor successfully passing on haulage



Source: Company, Edelweiss research

Double stacking to boost medium-term profitability

Rising share of double stack containers in overall rail freight volumes has been a notable driver of Concor's profitability over the past three years—EBITDA CAGR of 9% over the past few years. In FY18, the company ran ~2,300 double stack trains compared to ~300 in FY16, and this has been a major margin expansion driver. Double stacking contributed 16% to total volumes during FY18.

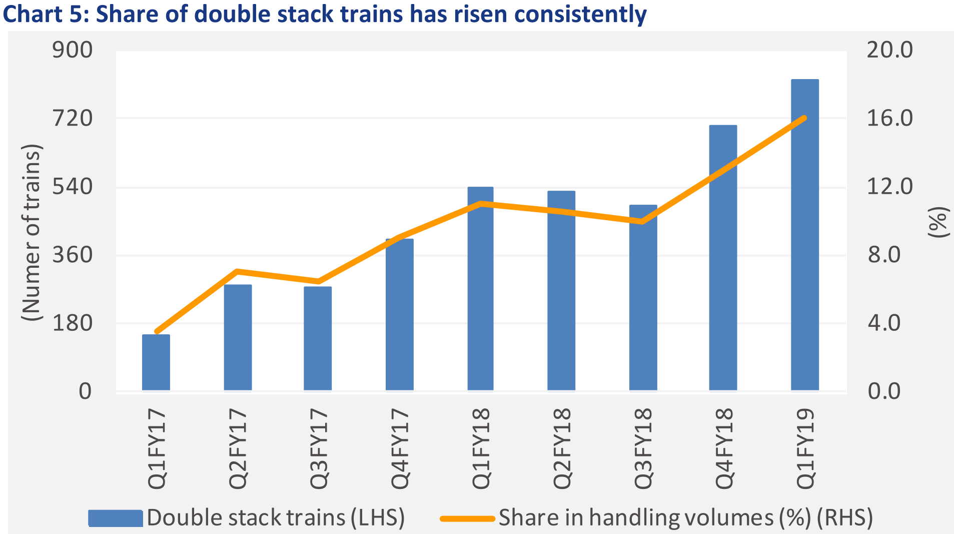
Double stack movement from the fast growing North Western ports, especially with the commissioning of Concor's MMLP at Kathuwas, has helped increase the rail coefficient of container movement and attract more light weight cargo from the road sector. As evident, the company's EBIT/TEU has improved steadily during FY16-18 as the share of double stack train has grown from 2% to 16% of total volumes. The reported EBIT/TEU for EXIM volumes has improved from INR0.35/tonne km to INR0.45/tonne km, reflecting the impact of the higher profitability double stack train operations.

Going forward, we expect the share of double stack trains to increase further and reach 20-25% of Concor's total volumes. As a result, we expect the company's margin to expand steadily over the next two-three years.

Fig. 1: Double stack train versus normal single container train

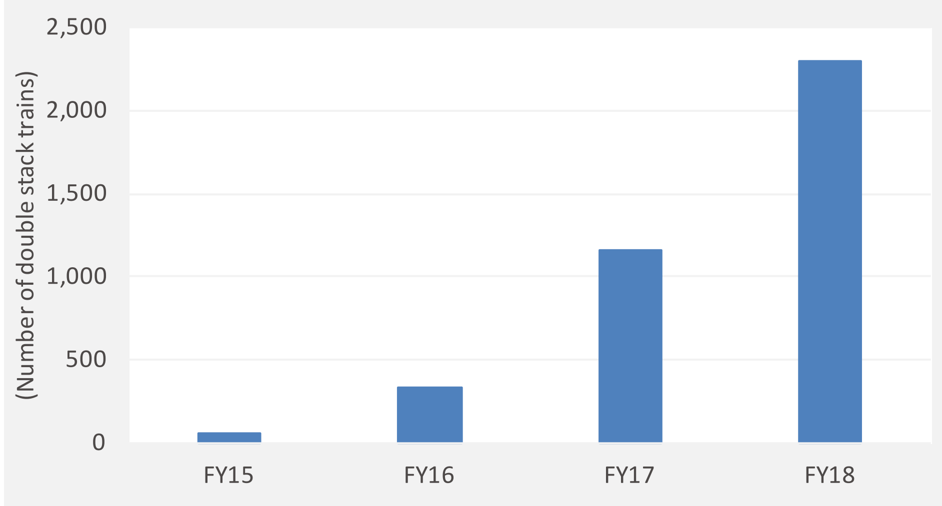
Source: Edelweiss research

Chart 5: Share of double stack trains has risen consistently



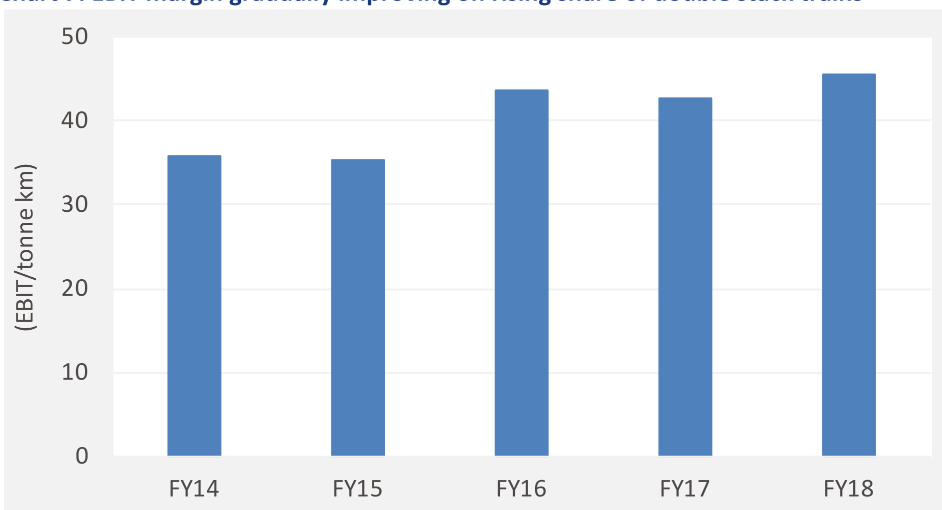
Source: Company, Edelweiss research

Chart 6: Share of double stack trains at 16% of FY18 volumes



Source: Company

Chart 7: EBIT margin gradually improving on rising share of double stack trains



Source: Company, Edelweiss research

DFC: Undoubtedly a meaningful boost

Container rail in India has seen years of suffering

The plight of Indian Railways can be gleaned from the fact that nearly 85% of the current laid capacity was installed pre-independence *(pre-1947; refer to* ***Re-birth of the Colossus,*** published in January 2017*)*. Over the years, Indian Railways has been a political tool to gain popularity. This has been largely through implementing below-par price hikes in passenger tickets and as a result passenger rail has been incurring losses for several decades now. On the other hand, freight part of the railways, which uses only 30-35% of capacity, has been profitable and in a way has subsidised passenger rail's losses.

DFC should inject volume and efficiency in the system

In India, passenger trains receive preference on railway routes and as a result container trains usually end up clocking paltry 30-40kmph mileage. This is primarily due to the fact that container trains share the same railway infrastructure or railway tracks as passenger trains.

The DFC project launched in 2006, was initially set to be commissioned around 2014-16 and expected to solve this problem of sharing tracks with passenger trains. The full-fledged commissioning has since been delayed and now expected to be around FY21.

What can pan out realistically?

As per Indian Railways and a RITES report, the volume potential that the two DFCs can add is immense. The combined potential addition of Eastern and Western DFCs can be more than 100mmt, as per these forecasts.

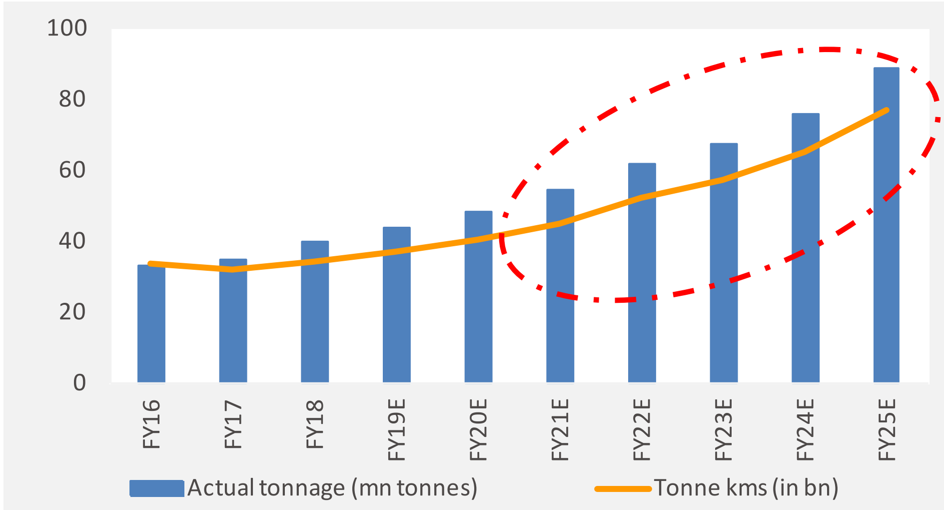
In our view, this is more of a blue sky scenario rather than a realistic forecast considering that existing container rail freight market is only 55mmt at the national level. While we agree that this existing market has been constrained by lack of capacity, we also point out that a portion of DFC volumes will logically switch from this existing capacity.

In our view, post commissioning, DFC should realistically and incrementally add about 30-40mmt to the system over a course of four-five years. This includes the shift of container movement from the existing passenger network. This shift will obviously be led by efficiency drivers of quick turnaround times and potentially more competitive pricing. If commissioned in a timely manner, we believe 30-40mmt estimate by FY25-26 is possible.

What does it mean for Concor?

For Concor, this will be a huge opportunity to raise its market share as a leader. We expect the company to capture at least 80-90% share of the increased capacity via DFC. More importantly, due to higher capacity specifications in terms of wagons, etc., DFC related operations are expected to yield nearly double the margin of normal current margin. As a result, we estimate Concor to post EBITDA margin of ~55-65% for DFC related volumes.

Chart 8: Potential volume gains



Source: Company, DFCCIL, Edelweiss research

Valuation

We initiate coverage on Concor with 'HOLD' recommendation and one-year target price of INR736, based on a mix of PE and DCF methodology. We value the company's existing earnings at PE of 18x on FY20E EPS and we use cash flow valuation to calculate the NPV for the DFC cash flow stream that starts in FY21.

Our estimates indicate that nearly one-third of the current market valuation comes from the DFC-related option value. This implies that the market is valuing the existing business at 15x PE, while we believe 18x PE is a more fair multiple (despite assuming that a part of volumes will shift to DFC).

Concor's existing rail freight business should clock 10-12% earnings CAGR over the next four-five years. With RoE of 12-14% during FY18-22E and dividend payout of 40%, we estimate that the fair multiple to assign is a PE of ~18x on FY20E EPS. As a result, we have valued the existing earnings stream at this multiple. This gives us a valuation of INR509/share for the existing business.

Our cash flow valuation for DFC related earnings gives us a value of INR209/share for Concor. For our DCF, we have assumed WACC of ~13% and terminal growth rate of ~4%.

Table 1: Target price calculation for Concor

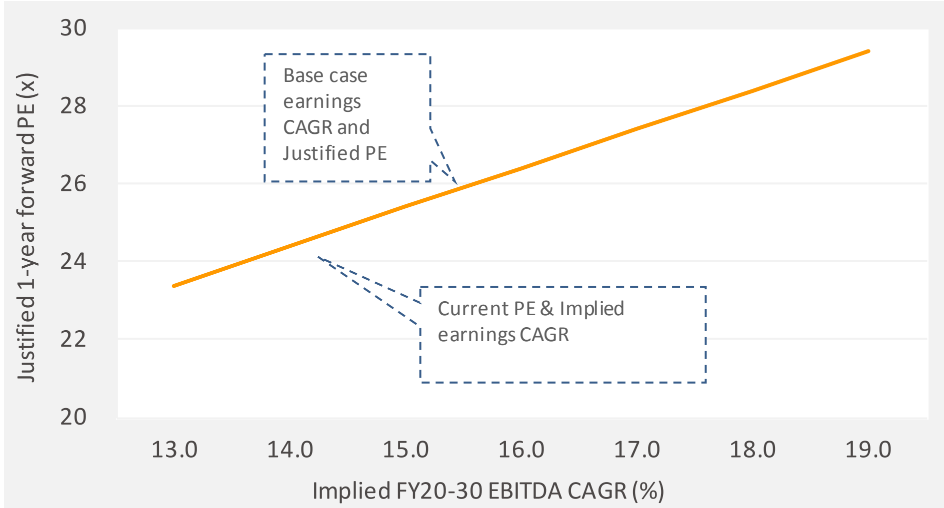
Consolidated FY20E EPS	INR/sh	28.1
P/E multiple	(x)	18.0
Value for current business	**INR/sh**	**507**
NPV for DFC starting FY21E	INR/sh	229
Target price	**INR/sh**	**736**
P/e multiple at TP	(x)	26.1

Source: Edelweiss research

What does current valuation imply?

Our analysis indicates that the current valuation implies that excluding the DFC related valuation, the market is valuing Concor's existing business at 15x PE. This, in turn, implies long-term earnings CAGR of ~9%, which we believe is achievable. As mentioned above, we believe that the fair multiple for the existing business should be around ~18x.

Chart 9: Our fair valuation that includes NPV for DFC values Concor at 26x PE



Source: Edelweiss research

Key Risks

Our thesis builds in 4-5% annual volume growth from EXIM. Any shortfall or higher volumes pose risks to our estimates.

We assume DFC to be fully commissioned by FY21/22. Any further delay in commissioning will be a significant downside risk to our fair value target price.

We have assumed margin expansion as the company ramps up its double stack trains; slower or faster ramp up can entail downside/upside risks to our estimates.

Financial Outlook

We estimate ~2% growth in NTKMs on a base tonnage growth of ~6% annually for FY18-20. Concor's rail freight revenue has still clocked 6% CAGR over the past five years and this has predominantly been due to the annual increase in realisation. The company has been able to successfully absorb the increase in haulage charges imposed by Indian Railways and as a result, realisation per tonne has risen at 5-6% CAGR. As a market leader, we expect Concor to absorb rail haulage charges and estimate 5-6% annual increase in realisation.

Chart 10: Consolidated sales (FY16-21E)

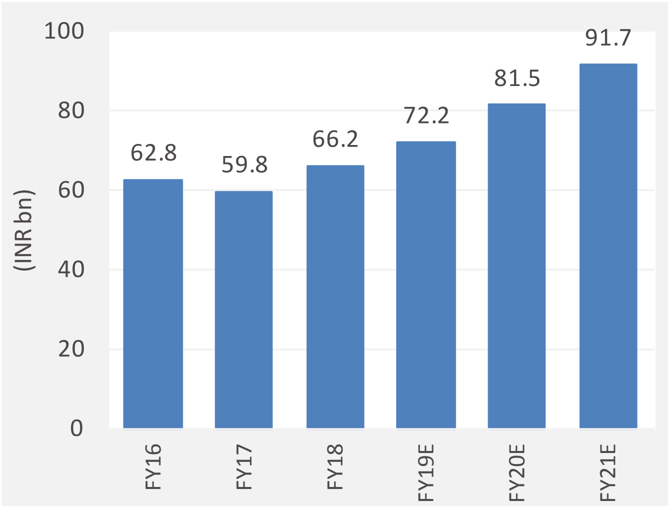
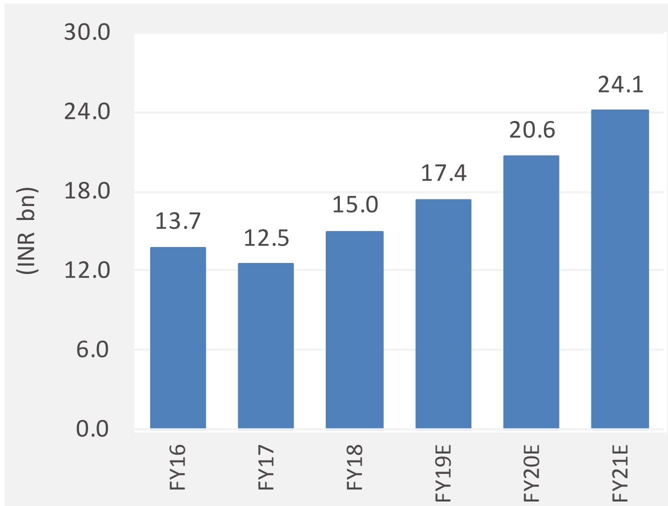


Chart 11: Consolidated EBITDA (FY16-21E)



Source: Company, Edelweiss research

Chart 12: EXIM EBITDA margin

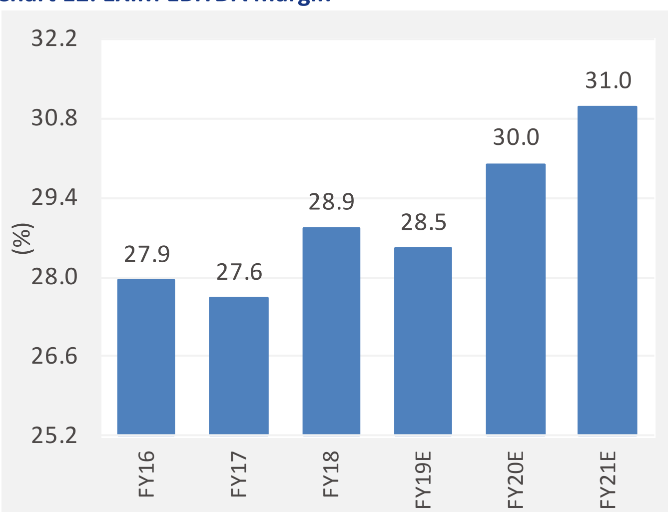
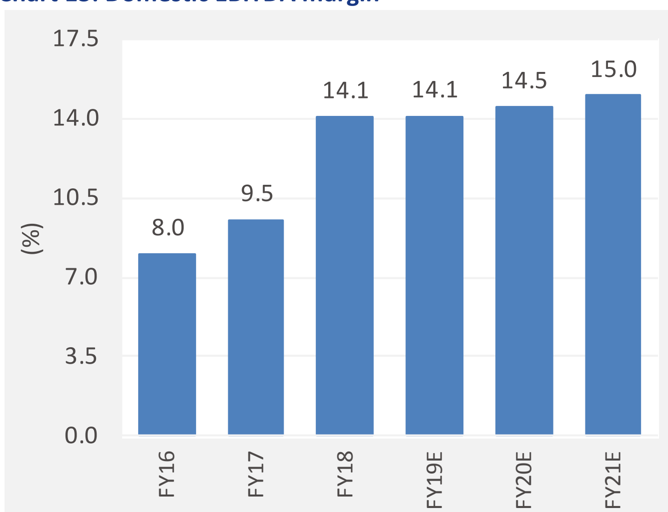


Chart 13: Domestic EBITDA margin



Source: Company, Edelweiss research

Chart 14: RoE profile FY17-21E

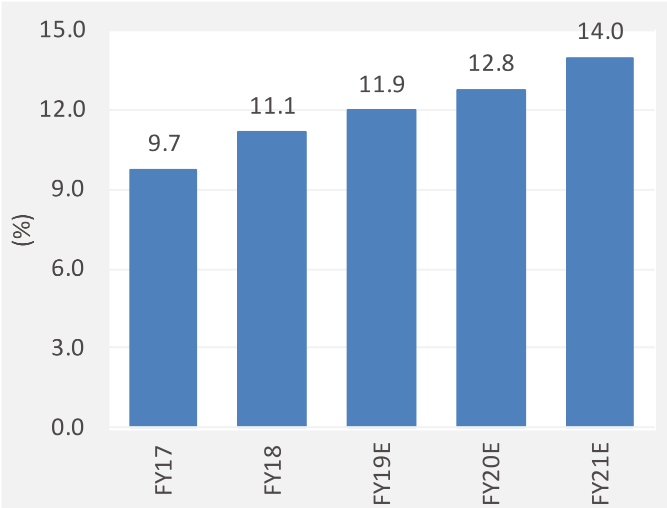
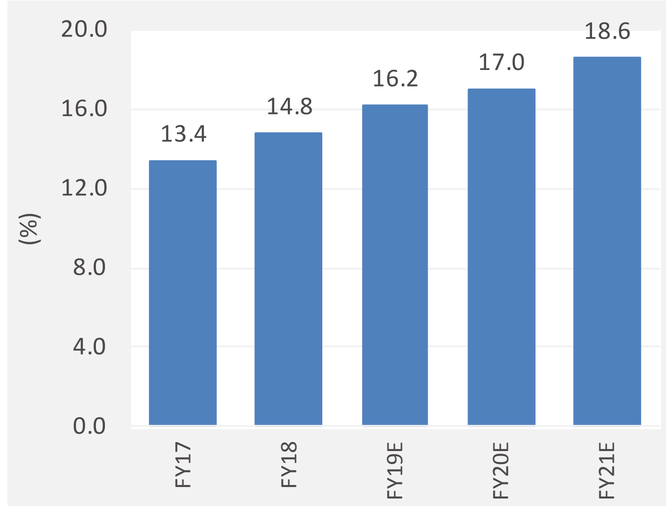


Chart 15: RoCE profile FY17-21E



Source: Company, Edelweiss research

Chart 16: Container rail volumes

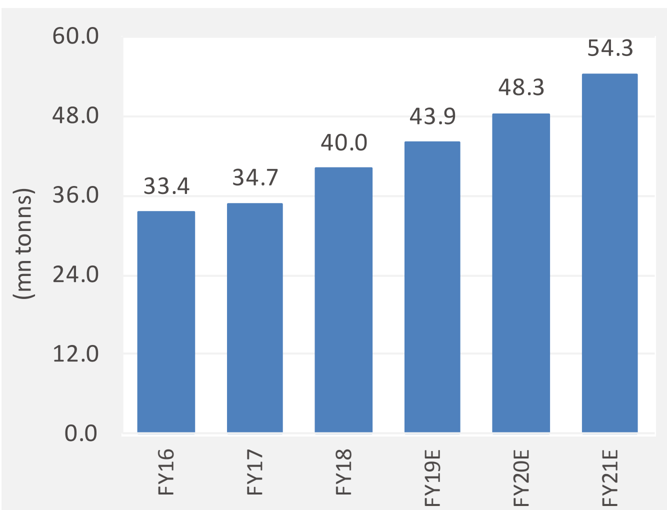
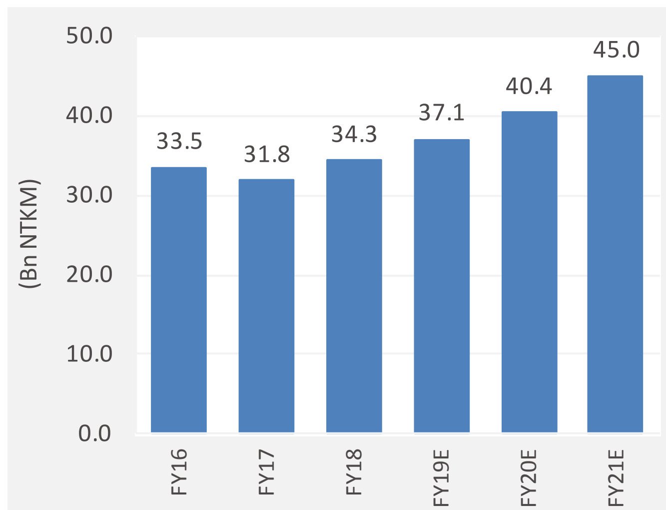


Chart 17: Container volumes for Concor



Source: Company, Edelweiss research

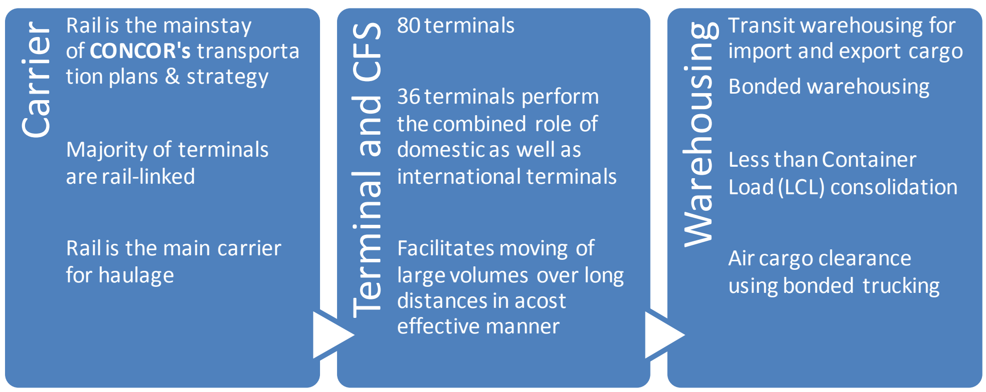
Company Description

Concor is the largest player in India's ~55mmt container rail freight market with ~74% market share. The company currently owns nearly 15,000 wagons and 21,000 containers. Though the rail freight market was opened up for private players in 2006, Concor has been able to sustain its market share at 73-75% driven by growing number of wagons and containers that it has added to its fleet. In our view, for a transportation system, its terminal network defines its reach and presence. Currently, it has network of 79 terminals—14 EXIM terminals, 22 domestic terminals, 36 combined terminals and seven strategic tie ups. Concor is targeting 100 terminals by 2020.

Concor's core business is organised in two segments:

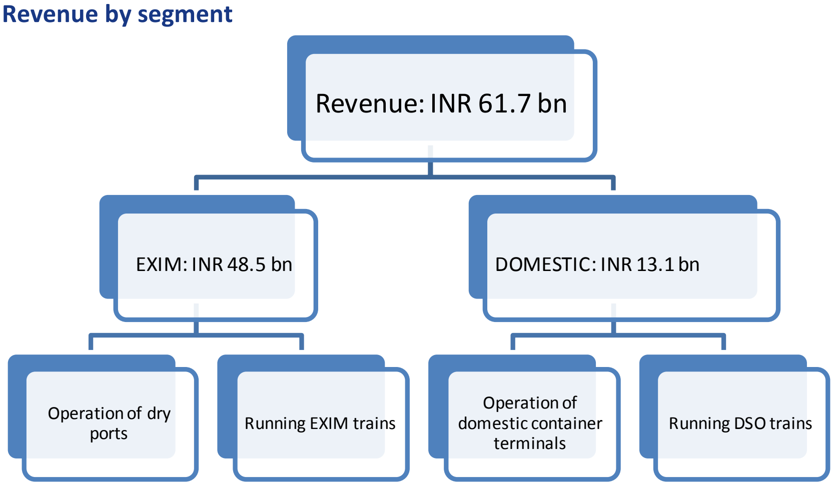
- **EXIM business segment** comprising operating dry ports (ICDS/CFSS) and running EXIM trains.
- **Domestic business segment** comprising operating domestic container terminals and running DSO trains.

Fig. 2: Concor's business model



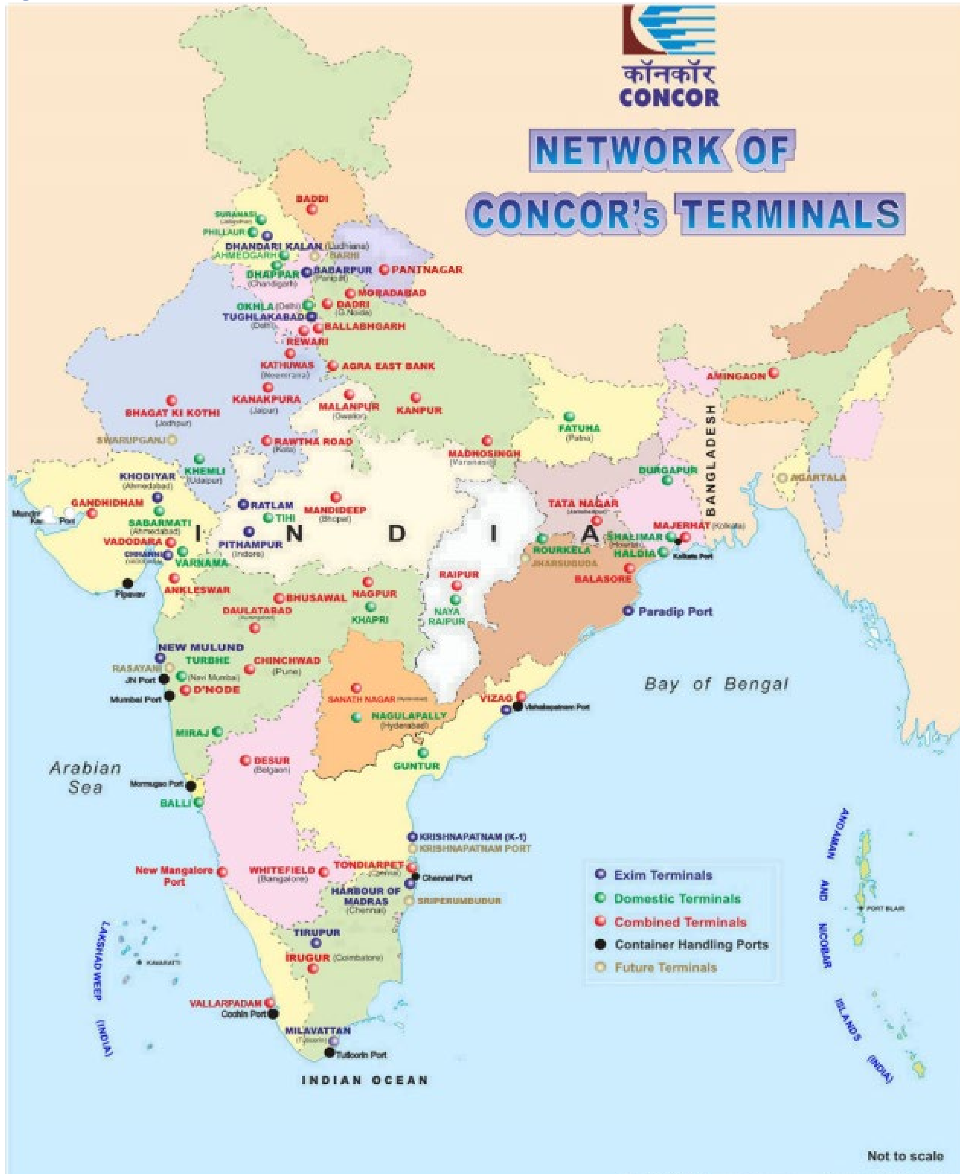
Source: Company, Edelweiss research

Fig. 3: Revenue by segment



Source: Company, Edelweiss research

Fig. 4: Concor's network of terminals – Pan India



Source: Company

Table 2: Management overview

Key personnel	Profile
Mr. V. Kalyana Rama, Chairman & Managing Director	Mr. V. Kalyana Rama is the Chairman & Managing Director of Concor. He is a Mechanical Engineer with ICWAI and an Indian Railway Traffic Service (IRTS) officer of 1987 batch. He had worked in BHPV & BHEL before joining Indian Railways. Prior to joining Concor's Board of Directors as Director (Projects & Services), he held various assignments such as Executive Director, Chief General Manager in the company.
Mr. Pradip Kumar Agrawal Director (Domestic)	Mr. Pradip Kumar Agrawal has taken over the charge of Director (Domestic Division) from July 1, 2016. He belongs to Indian Railway Traffic Service. He has worked for Indian Railways for more than 17 years on various important assignments, both at Divisional and Zonal Headquarter levels covering operations, commercial, marketing and safety of Indian Railways. He joined Concor in 2006 as GGM (Ops)/Western Region. Thereafter, he worked as Chief General Manager, Western Region for four years.
Mr. Sanjay Swarup Director (International Marketing & Operations)	Mr. Sanjay Swarup took over as Director (International Marketing & Operations), Concor, w.e.f. 01.9.2016. He has done B.E. (Honours) Electronics & Communication from IIT Roorkee (formerly University of Roorkee) and PG Diploma (MBA) in Public Policy & Management from IIM Bangalore. He belongs to IRTS 1990 batch and has worked in BHEL before joining Indian Railways.
Mr. Rahul Mithal Director (Projects & Services)	Mr. Rahul Mithal is from the Indian Railways Service of Mechanical Engineers (SCRA 1985 batch). He has had a long stint of more than 20 years in various key positions in Indian Railways. He also holds the additional qualification of MBA (Finance) from Jamnalal Bajaj Institute of Management Studies, Mumbai, and is a Fellow of the Institution of Mechanical Engineers (UK) and a Chartered Engineer registered with the Engineering Council (UK).
Mr. Sanjay Bajpai ED/Traffic (Co-ordination)/ Railway Board Part-Time Government Director	Mr. Sanjay Bajpai, Executive Director/Traffic (Co-ordination), Railway Board, an officer of the Indian Railway Traffic Service 1991 batch, joined Indian Railways in 1992. He is a post graduate in Economics from Allahabad University. He was also Deputy GM/G and Secretary/GM/Northern Railway as well as Chief Passenger Transport Manager of Northern Railway.
Mr. Manoj Kumar Srivastava ED/Traffic Transportation (Freight)/ Railway Board Government Director	Mr. Manoj Kumar Srivastava, Executive Director/Traffic Transportation (Freight), Railway Board, is an officer of the Indian Railway Traffic Service of 1988 batch. He is a post graduate in Geology and has vast experience in railway operations, commercial working and general administration.

Source: Company

Financial Statements

Key assumptions

		FY18	FY19E	FY20E	FY21E
Macro	GDP(Y-o-Y %)	6.7	7.3	7.6	7.6
	Inflation (Avg)	3.6	4.5	5.0	5.0
	Repo rate (exit rate)	6.0	6.8	6.8	6.8
	USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector					
Logistics sector size (USD bn)		200	218	238	259
Company					
EXIM avg. lead distance in km			720	710	700
EXIM originating TEU growth (%)			10.0	10.0	10.0
EXIM realisation per TEU per km (INR)			27	29	30
EXIM Handling TEUs growth (%)			10	8	8
EXIM Handling realisation (INR/TEU)			1,900	1,900	1,900
Dom. avg. lead distance in km			1,394	1,394	1,394
Dom. originating TEU growth (%)			10.0	10.0	10.0
EXIM handling TEUs growth (%)			9.5	8.0	8.0
EXIM handling realisation (INR/TEU)			1,900	1,900	1,900
Dom. handling TEUs growth (%)			3.0	3.0	3.0
Dom. handling realisation (INR/TEU)			1,900	1,900	1,900
Segmental sales growth (%)					
EXIM revenue growth (%)		7.4	8.3	13.4	13.1
Domestic revenue growth (%)		20.8	12.0	12.6	11.0
Segmental EBITDA margins (%)					
EXIM EBITDA margin (%)		28.9	28.5	30.0	31.0
Domestic EBITDA margin (%)		14.1	14.1	14.5	15.0
Cost and financial assumptions					
Gross margins (%)		31.4	31.1	31.6	31.6
Other expenses (%)		4.6	4.2	3.5	2.5
EBITDA margins (%)		22.6	24.1	25.3	26.2
Capex (INR mn)		(8,803)	(9,000)	(9,000)	(5,000)
Net borrowings (INR mn)		(19,704)	(20,907)	(24,425)	(33,752)
Receivable (days)		5	5	5	5
Inventory (days)		0	0	0	0
Payable (days)		16	16	16	16
Cash conversion cycle (days)		(11)	(11)	(11)	(11)

Income statement (INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Net revenues	66,225	72,171	81,540	91,741
Freight and COGS	45,419	49,729	55,786	62,748
Employee Benefit Expenses	2,794	2,035	2,301	2,591
Other expenses	3,025	3,035	2,815	2,338
Total expenditure	51,238	54,799	60,902	67,676
EBITDA	14,987	17,372	20,638	24,065
Depreciation & amort.	4,200	4,482	5,168	5,698
EBIT	10,787	12,891	15,470	18,367
Less: Interest Expense	56	181	181	181
Add: Other income	2,868	3,017	2,337	2,467
Profit before tax	13599	15726	17625	20652
Provision for tax	3,510	4,200	4,508	5,259
Less: Minority Interest	-	-	-	-
Add: Sha. of profit from ass.	548	575	604	634
Reported Profit	10,637	12,101	13,720	16,027
Adjusted Profit	10,637	12,101	13,720	16,027
No. of Shares outstand. (mn)	487.4	487.4	487.4	487.4
Adjusted Basic EPS	21.8	24.8	28.1	32.9
No. of Dilu. Sha. Outstand.(mn)	487.4	487.4	487.4	487.4
Adjusted Diluted EPS	21.8	24.8	28.1	32.9
Adjusted Cash EPS	29.3	34.0	38.8	44.6
Dividend per share (DPS)	8.9	9.7	10.9	12.7
Dividend Payout Ratio (%)	41.0	38.9	38.8	38.7

Common size metrics (% net revenues)

Year to March	FY18	FY19E	FY20E	FY21E
Other Expenses	4.6	4.2	3.5	2.5
EBITDA margins	22.6	24.1	25.3	26.2
EBIT margin	16.3	17.9	19.0	20.0
Interest	0.1	0.3	0.2	0.2
Net profit margin	16.1	16.8	16.8	17.5

Growth metrics (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	10.7	9.0	13.0	12.5
EBITDA	20.3	15.9	18.8	16.6
PBT	17.2	15.6	12.1	17.2
Adjusted Profit	24.5	13.8	13.4	16.8
EPS	(0.4)	13.8	13.4	16.8

Balance sheet				(INR mn)
As on 31st March	FY18	FY19E	FY20E	FY21E
Share capital	2,437	2,437	2,437	2,437
Reserves & surplus	91,044	97,012	103,851	111,923
Shareholder equity	93,482	99,449	106,288	114,360
Minority interest	1,134	1,134	1,134	1,134
Long term borrowings	620	620	620	620
Total Borrowings	620	620	620	620
Long Term Lia.& Provisions	820	820	820	820
Deferred Tax Liability (net)	1,892	1,892	1,892	1,892
Sources of funds	**97,947**	**103,915**	**110,754**	**118,826**
Net Block	40,079	44,597	48,429	47,732
Capital work in progress	6,918	6,918	6,918	6,918
Intangible assets and Goodwill	114	114	114	114
Total net fixed assets	47,111	51,629	55,461	54,763
Non current investments	11,253	11,253	11,253	11,253
Other non-current assets	18,021	18,021	18,021	18,021
Cash and cash equivalents	20,324	21,527	25,045	34,372
Inventories	278	281	317	357
Sundry Debtors	909	880	986	1,102
Loans & Advances	1,332	1,332	1,332	1,332
Other Current Assets	9,357	9,357	9,357	9,357
Total Current Assets (ex cash)	11,877	11,850	11,992	12,148
Trade payable	2,759	2,998	3,386	3,809
Other CL & ST. Provisions	7,878	7,365	7,631	7,921
Total CL & Provisions	10,637	10,363	11,017	11,730
Net Current Assets (ex cash)	1,239	1,486	975	418
Uses of funds	**97,947**	**103,916**	**110,755**	**118,827**
Book Value per share (INR)	192	204	218	235

Free cash flow

Year to March	FY18	FY19E	FY20E	FY21E
Reported Profit	10,637	12,101	13,720	16,027
Add: Depreciation	4,200	4,482	5,168	5,698
Add:Interest	37	122	122	122
Add: Others	(606)	(4,026)	(1,857)	(1,928)
Gross cash flow	14,268	12,678	17,153	19,919
Less: Changes in WC	990	(247)	512	557
Operating cash flow	13,278	12,925	16,641	19,362
Less: Capex	(8,803)	(9,000)	(9,000)	(5,000)
Free Cash Flow	**4,475**	**3,925**	**7,641**	**14,362**

Cash flow metrics

Year to March	FY18	FY19E	FY20E	FY21E
Operating cash flow	13,278	12,925	16,641	19,362
Financing cash flow	(4,924)	(5,739)	(6,459)	(7,503)
Investing cash flow	(5,493)	(5,983)	(6,663)	(2,533)
Net cash flow	2,861	1,202	3,519	9,326
Capex	(8,803)	(9,000)	(9,000)	(5,000)
Dividends paid	(163)	(169)	(189)	(220)

Profitability ratios

Year to March	FY18	FY19E	FY20E	FY21E
Gross profit margin	4.2	2.8	2.8	2.8
EBITDA margin	22.6	24.1	25.3	26.2
Pre-tax Return on Capital Emplo	14.8	16.2	17.0	18.6
Return on Average Equity (ROAE)	11.7	12.5	13.3	14.5
ROA (%)	11.2	12.0	12.8	14.0
Current ratio	3.0	3.2	3.4	4.0
Quick ratio	1.1	1.1	1.1	1.0
Cash ratio	1.9	2.1	2.3	2.9
Receivable turnover (x)	69.3	78.7	77.9	78.6
Payables turnover (x)	22.8	23.1	22.7	22.7
Receivables (days)	5	5	5	5
Payables (days)	16	16	16	16
Cash conversion cycle (days)	(11)	(11)	(11)	(11)
Net Debt/Equity	(0.2)	(0.2)	(0.2)	(0.3)
Long term debt / Capital employ	0.6	0.6	0.6	0.5
Total debt / Capital employed (%	0.6	0.6	0.6	0.5
Interest coverage (x)	194.4	71.1	85.3	101.2

Operating ratios (x)

Year to March	FY18	FY19E	FY20E	FY21E
Total asset turnover	0.7	0.7	0.8	0.8
Fixed asset turnover	1.7	1.7	1.7	1.9
Equity turnover	0.7	0.7	0.8	0.8

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adjusted Diluted EPS (INR)	21.8	24.8	28.1	32.9
Y-o-Y growth (%)	*(0.4)*	*13.8*	*13.4*	*16.8*
Adjusted Cash EPS (INR)	29.3	34.0	38.8	44.6
Dil. Price to Earnings Ratio (P/E) (	30.9	27.2	24.0	20.5
Price to Book Ratio (P/B) (x)	3.5	3.3	3.1	2.9
Enterprise Value / Sales (x)	4.7	4.3	3.7	3.2
Enterprise Value / EBITDA (x)	20.7	17.8	14.8	12.3
Dividend Yield (%)	1.3	1.4	1.6	1.9

Additional Data

Directors Data

Vennelakanti Kalyana Rama	Managing Director	Sanjeev Suryakant Shah	Director
Pradip Kumar Agrawal	Wholetime Director	Mocherla Prasad Anjaneya	Director
Sanjay Swarup	Wholetime Director	Manoj Kumar Srivastava	Director
Rahul Mithal	Wholetime Director	Deepak Shetty	Director
Kamlesh Shivji Vikamsey	Director	Sanjay Bajpai	Director

Auditors - Arun K Agarwal and Associates

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Matthews International Capital Man	3.10	Standard Life Aberdeen PLC	2.84
ICICI Prudential Asset Management	2.31	GIC Pte Ltd	1.89
FIL Ltd	1.85	UTI Asset Management Co Ltd	1.44
Vanguard Group Inc/The	1.38	HDFC Asset Management Co Ltd	1.30
Hermes Investment Management Ltd	1.11	BlackRock Inc	1.06

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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India Midcaps

INITIATING COVERAGE

VRL LOGISTICS

Optimal mix priced in

India Equity Research| Logistics

Edelweiss
Ideas create, values protect

VRL Logistics (VRL) is one of the leading road transporters in India focusing on less-than-truckload (LTL) operations. The company has built and scaled up a solid business model with a strong client base. We find VRL runs a solid business optimally, but mix improvement will be difficult hereon as ~70% of sales are already LTL based. A jump in fuel costs YTD is hurting profit margin and this challenge is likely to persist in 2019 as well. We are valuing VRL at a PE of 24x given its earnings growth & RoE, (currently at 23x) and initiating with 'HOLD'.

Business mix already optimal; cost challenges likely to persist

VRL derives nearly 70% of sales from the superior-margin LTL business. While we note the trend of FTL category gradually transforming to the LTL and express categories, for VRL the business mix could be already at an optimal level, which implies limited upside from mix improvement. Furthermore, road transportation is likely to grow 11–12% annually for the next few years, but it still remains relatively less attractive compared to other logistics segments such as road express and 3PL.

Cost challenges may continue to hurt profitability

Fuel prices (diesel) are up 20% YTD and this has hurt margins over the past three quarters. During the same time, the truck freight index is up only 2%, reflecting pass-through inability. LTL has relatively better pass-through than FTL. We see these cost-related challenges persisting next year as well, which caps profitability.

Outlook & valuations: Growth priced in; initiate with 'HOLD'

We value VRL on PE basis, around 24x, which takes into account its long-term earnings growth and steady state RoE. The stock is trading at a PE of 23x, which already factors in 13% long-term growth, while VRL can deliver 14–15% over the next five–seven years. We initiate coverage with **'HOLD'** recommendation and target price of INR312.

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	19,223	21,314	23,541	25,998
EBITDA (INR mn)	2,342	2,487	2,790	3,131
Adjusted Profit (INR mn)	926	1,003	1,182	1,405
Adjusted Diluted EPS (INR)	10.2	11.0	13.0	15.4
EPS growth (%)	31.7	8.3	17.9	18.8
P/E (x)	30.2	27.9	23.6	19.9
EV/EBITDA (x)	12.1	11.0	9.4	7.9
ROACE (%)	22.7	22.8	24.4	25.9
ROAE (%)	16.3	16.1	17.0	17.9

EDELWEISS RATINGS

Absolute Rating	**HOLD**
Investment Characteristics	Growth

MARKET DATA *(R: VRLL BO, B: VRLL IN)*

CMP	: INR 306
Target Price	: INR 312
52-week range (INR)	: 492 / 248
Share in issue (mn)	: 90.3
M cap (INR bn/USD mn)	: 28 / 389
Avg. Daily Vol. BSE/NSE ('000)	: 120.2

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	68.1	68.1	68.1
MF's, FI's & BKs	17.2	15.8	11.8
FII's	7.8	9.1	12.0
Others	6.9	7.1	8.1
** Promoters pledged shares (% of share in issue)*	:		*NIL*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	3.1	21.1	18.0
3 months	(8.2)	(3.4)	4.8
12 months	4.9	(22.5)	(27.3)

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November 26, 2018

Investment Rationale

VRL is one of India's largest organised road transport companies with ~4,200 owned trucks and ~400 buses for passenger transportation. Majority of the company's trucking operations are LTL-based, which makes it a high margin/RoCE business. However, at the same time, since the model is already optimal, we believe it leaves limited upside for further improvement. Furthermore, the current cost environment has been challenging (mainly due to steep fuel cost), and this can keep the medium-term growth moderate. We are initiating coverage VRL with **'HOLD'** and target price of INR312.

Our neutral stance on VRL can be broadly summarised in four key points:

1. **Optimal business model implies limited upside:** Nearly ~70% of VRL's group sales are LTL in nature (including 9% in express). In the wake of GST and E-way bill implementation, we note that customers are increasingly demanding transportation of smaller consignments with quicker turnarounds. This is gradually leading to conversion of FTL category to LTL/express. This is a positive, which will boost growth rate of the LTL category from current 9–10% annually. However, since VRL's model is already largely LTL, the benefits from business mix change will be limited, in our view.

2. **Challenging cost environment will affect medium-term profitability:** In the previous two quarters, diesel prices have catapulted due to mounting crude prices. While these will be passed-through gradually, we believe volatility in fuel prices is hurting medium-term profitability of road transporters. VRL has seen a similar impact on its passenger transport operations over the past three–four months. In our view, this will keep the margin under pressure and earnings growth in check over the next few quarters.

3. **Road transportation – moderate growth category:** Though the largest category in the Indian logistics sector, road transportation as a whole is a moderate growth sub-segment with 9–10% annual growth. While we take cognizance of the trend that LTL will grow 1–2% faster due to the shift from FTL, by and large, it remains a lower growth and RoCE category than attractive segments such as 3PL or road express.

4. **Valuations — currently pricing adequate growth, limited upside:** We value VRL at a PE of 23.5x FY20E EPS, which yields a target price of INR312. Our assigned multiple implies FY18–28E earnings CAGR of 13%, which is a reasonable assumption over a 10-year period in our view. Currently, VRL trades at ~23x PE on FY20E EPS, which implies ~2% upside from the current level. Our FY18–21E earnings show ~15% EPS CAGR for VRL; however, the over the long term, this should be 13–14% as mentioned above.

Business mix improvement likely to be limited

VRL's goods transportation business (~80% of group sales) is largely LTL based, which involves aggregating consignments from multiple customers and delivering to multiple locations. The company operates an asset-owned model, i.e. it owns the bulk of the trucks it operates. It owns ~4,200 trucks, which makes it a sizable organised player. This scale has enabled VRL to develop and ramp up its LTL-focused business model successfully, in our view.

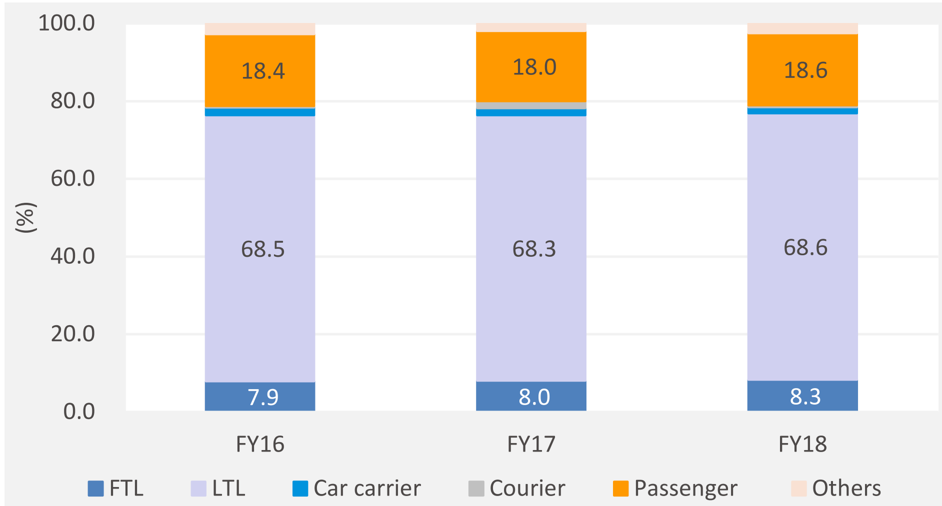
VRL's goods transportation segment serves various industries and sectors (FMCG, textiles, furniture, pharmaceuticals, rubber, plastics, metals, and automotive parts). This large and diversified base of customers has ensured that it is not dependent on any particular set of customers. No single customer contributed more than 1% to revenue from goods transport. VRL operates through a hub-and-spoke model, which enables transport of various parcel sizes and last-mile connectivity across the country. It has 48 transportation hubs (seven owned).

The company operates its own fleet to: 1) reduce dependence on hired vehicles; 2) retain control over value chain and service standards; and 3) establish a reputation for reliable and timely delivery. It has dedicated in-house maintenance facilities, accessibility to spare parts and fuel, and in-house software technology capabilities. These facilities reduce expenses on road repairs and detours, and minimize the downtime due to breakdowns. It also has a re-engineering department and a tyre repair unit at Hubballi (in north Karnataka) to increase the useful life of tyres and engines. Ashok Leyland and VE Commercial (Volvo) have built their own spare parts yard on VRL's premises – this allows VRL to obtain extra parts at processing-plant rates and saves money on conveying expenses. For tyres, it has a tie-up with Michelin India Tires and CEAT at competitive rates. VRL's in-house innovation group has created software applications (ERP) to track timely service and spare-part substitutions, which help expanding the efficiency and life of its trucks.

Mix improvement may be limited

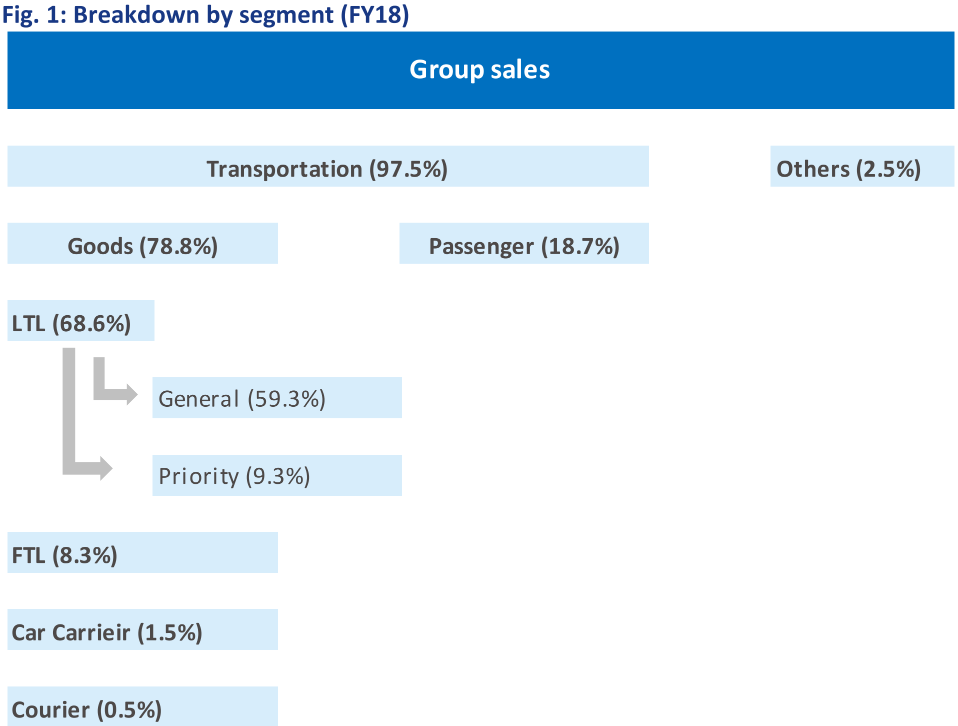
Within VRL's goods transportation segment, nearly 88% of sales are LTL based, which is a much higher margin and RoCE business than FTL. In the wake of GST and E-way bill implementation, we note that customers are increasingly demanding transportation of smaller consignments with quicker turnarounds. This is gradually leading to conversion of FTL category to LTL/express. It is a positive which will boost growth rates for the LTL category from current 9–10% annually. However, since VRL's model is already largely LTL, the benefits from a business mix change will be limited, in our view.

Chart 1: Sales breakdown by segment (%)



Source: Company

Fig. 1: Breakdown by segment (FY18)



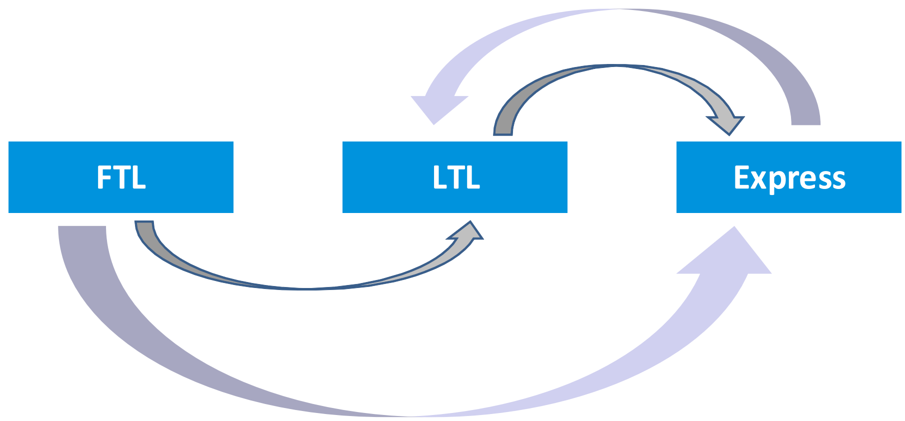
Source: Company

Post GST, which has reduced the need for warehouses in every state, customers are demanding smaller truckloads and quicker turnarounds

This has led to the pure FTL business starting to get converted into LTL and even express business

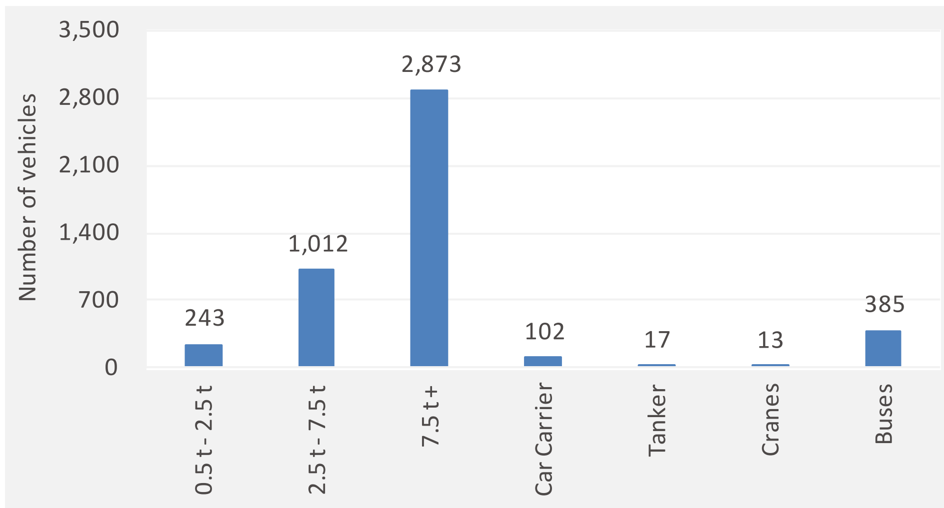
On the other hand, LTL companies will be inclined to do more express business; similarly, express companies have also started working on LTL consignments

Fig. 2: New shifts seen within road transportation



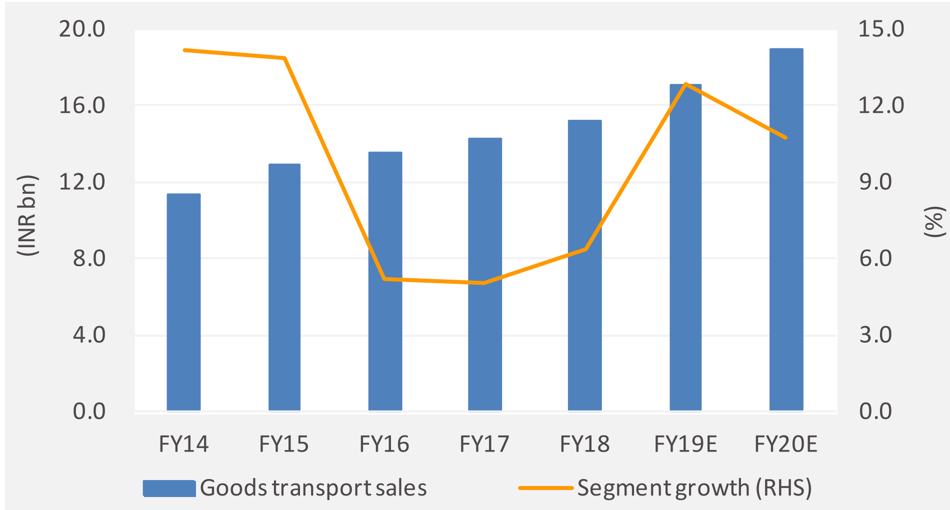
Source: Edelweiss research

Chart 2: VRL's fleet details



Source: Company

Chart 3: Segmental sales (INR bn)



Source: Company, Edelweiss research

Cost environment remains challenging

YTD, retail diesel price has shot up ~20% in India led by a sharp rise in crude prices. However, during the same period, the Indian Freight Index inched up only 2% (as per Bloomberg), which clearly reflects truckers' inability to pass-through. First, the quantum of fuel cost increase has been a problem, i.e. passing through a 20% fuel hike is unfeasible in the largely fragmented road transportation sector. Second, even among the organised category of road transporters, the problem has been the rapid increase in fuel prices, where the pass-through will be more gradual and not in entirety.

As seen in the past few quarters, VRL's margins have been impacted due to high fuel costs and its partial inability to it pass through (see chart below). Over the past three quarters, in the goods transportation segment, the company has been reporting EBITDA margin of below 12%, while the historical average margin for the previous seven quarters has been around 13%. This downtrend is more critical considering consensus was expecting the margin to inch up owing to operating leverage gains. Similarly, the passenger transportation's margin has been impacted, with the segment reporting losses in Q2FY19.

Chart 4: Diesel prices are up 20% YTD

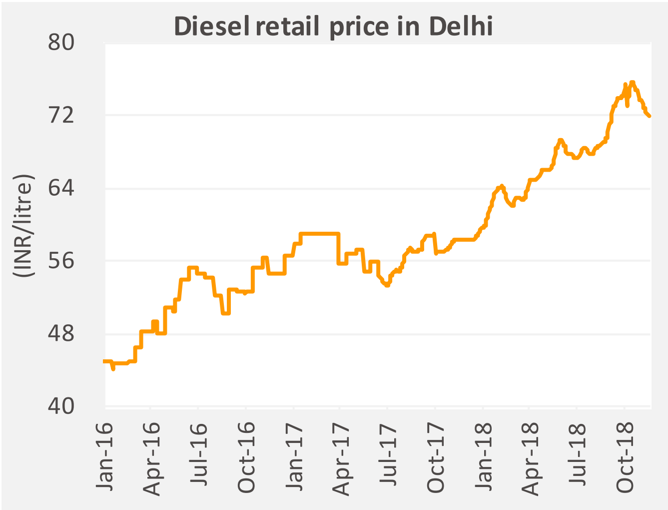
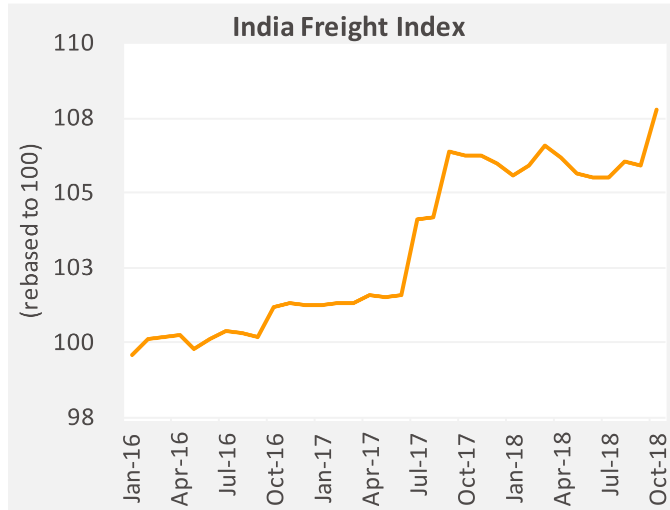


Chart 5: India Freight Index has moved up only 2% YTD



Source: Bloomberg, Company, Edelweiss research

Chart 6: Margins have suffered due to higher costs

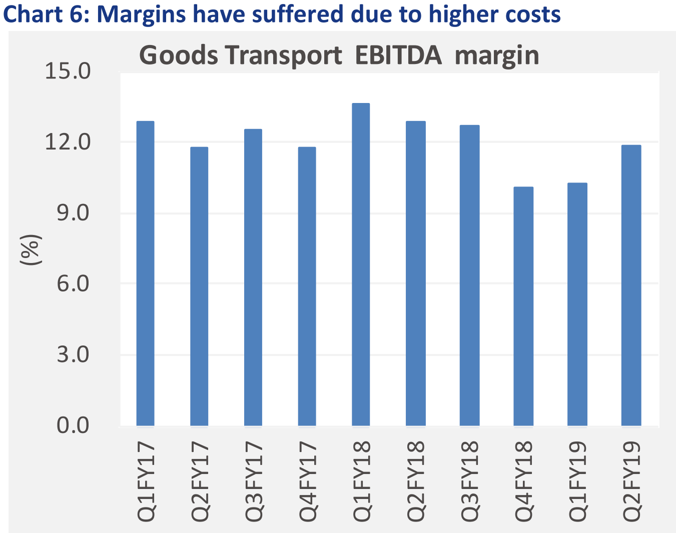
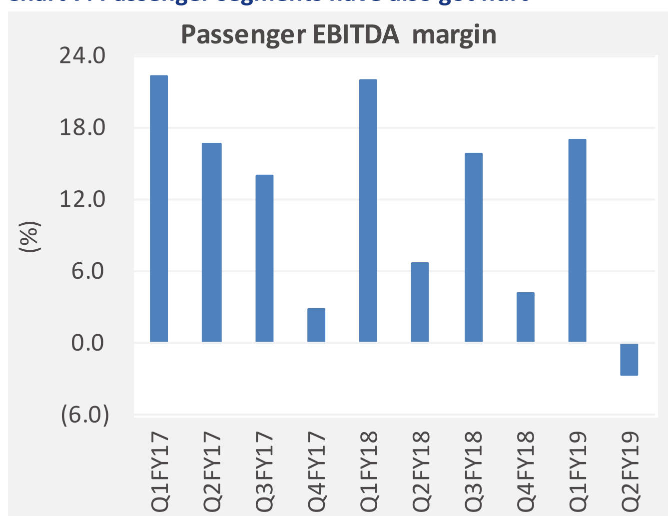


Chart 7: Passenger segments have also got hurt



Source: Company, Edelweiss research

Road transportation growth likely to be moderate

We estimate overall road transportation to grow 11–12% over the next five–seven years. Though we acknowledge the trend that FTL share is moving to LTL and express, considering the large size of the FTL segment, we believe it would be a gradual shift. The large part of the Indian trucking sector is characterized by fragmented ownership and this will take some time to change to an LTL-based business model.

The road transportation sector is highly fragmented with the presence of a large number of unorganised small truck operators. It is estimated that over 70% of truck owners in India have a fleet size of between one and five trucks. Truck operators are heavily dependent on intermediaries such as brokers and booking agents. The handlers hold a dominant position in pricing freight rates, which shrinks margins of truck operators. Consequently, pure road transportation or trucking lacks pricing power with very little possibility of pass through rising fuel and other costs.

Chart 8: Fragmented truck ownership limits pricing power

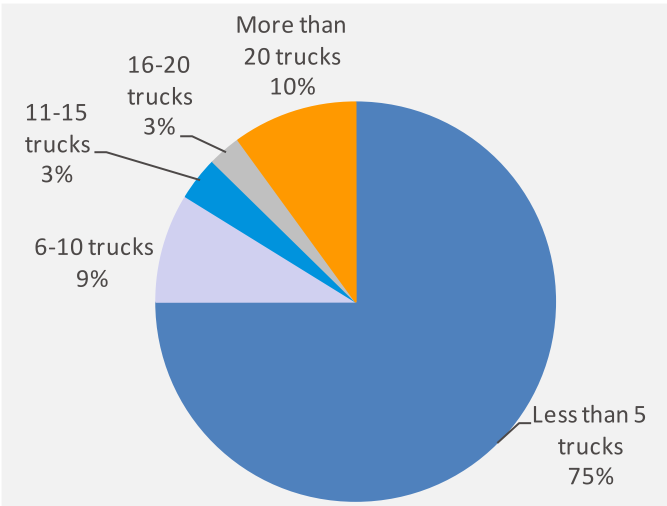
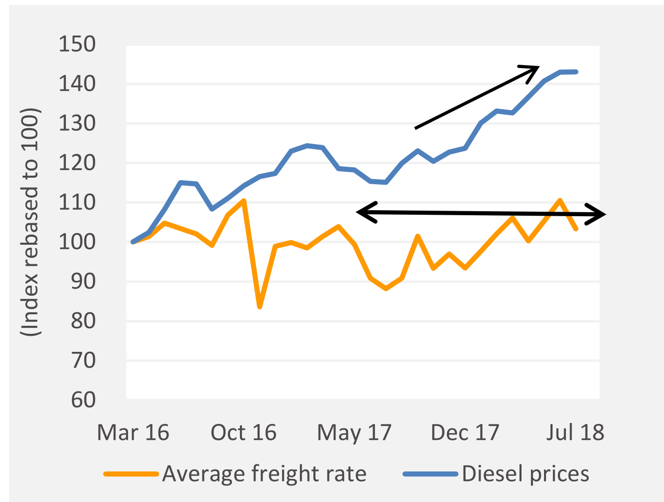


Chart 9: Pass through of fuel costs has been challenging



Source: Bloomberg, Edelweiss research

Table 1: Breakdown of road logistics sector

	FTL	LTL	Road Express
Share of Road Transportation (%)	~88%	~10%	~2%
Share of organized (%)	<10%	20-40%	~50%
Cost to customer (INR/ton-km)	2.5-3.5	5.0-8.0	20-40
EBIT margin (%)	2-4%	8-11%	9-12%
RoCE (%)	10-12%	15-17%	25-35%
Delivery time	96 to 120 hours	72 to 96 hours	Under 72 hours
Delivery type	Godown Booking – Godown Delivery	Flexible	Door to Door

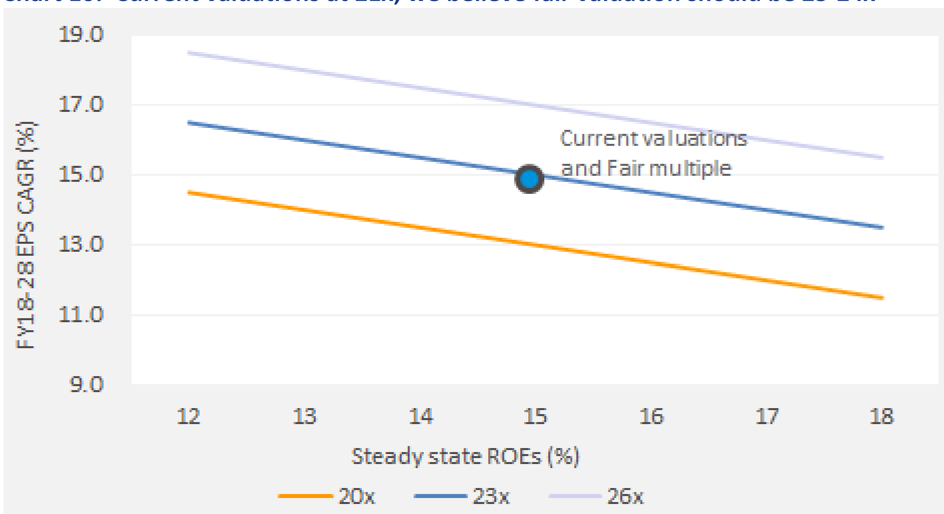
Source: Edelweiss research, various logistics players

Valuations

We are initiating coverage on VRL with 'HOLD' recommendation and a one-year target price of INR312, which is based on PE of 23.5x FY20E EPS. The stock is currently trading at a PE of 21x; however, our analysis, which factors in long-term earnings growth and steady state RoEs, shows appropriate level based on fundamentals is 23–24x.

Our analysis shows that the current PE factors in bottom-line growth of 12–13% annually while VRL is capable delivering ~15% growth. As a result, we are assigning a PE of 23.5x, which implies ~10% upside from current levels.

Chart 10: Current valuations at 21x; we believe fair valuation should be 23-24x



Source: Edelweiss research

Key Risks

- Our thesis builds in 9–10% annual volume growth in road transportation. Any shortfall or higher volumes pose risks to our estimates.
- We assume margins for both of VRL's segments would expand over the next couple of years; should they not, it will pose downside risk to our estimates.
- We have assumed that VRL will continue its core business of transportation logistics. If the company ventures into unchartered businesses, it is likely to be a downside risk.

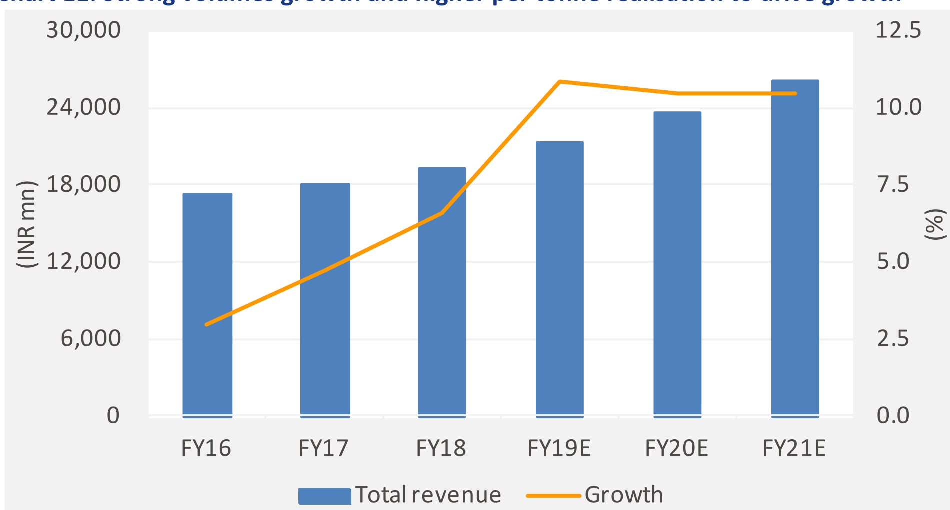
Financial Outlook

Consolidated revenue to grow at 10-12% over the next three years

Revenue has posted CAGR of 6% over FY16-18. We estimate revenue to grow by about 10-12% during FY18-21 driven primarily by growth in the goods transportation segment. We expect the goods transportation segment to grow about 10-13% over FY18-21E on account of capacity addition (~2% YoY growth) and increased realisation per tonne as the company is able to pass on increasing diesel costs for every 5% variation.

The passenger transportation segment constituted about 19% of total revenue and we estimate the segment to clock CAGR of ~9% over FY18-21 on account of increased realisation per passenger km. The wind power and aircraft segments constituted 1.1% and 0.7% of total revenue, respectively, in FY18. We estimate the wind power segment's revenue to be flat over the next three-four years, while air charter revenue is likely to grow marginally at CAGR of ~5%.

Chart 11: Strong volumes growth and higher per tonne realisation to drive growth



Source: Company, Edelweiss research

Chart 12: LTL and efficiencies key growth drivers for segment realisation per ton km

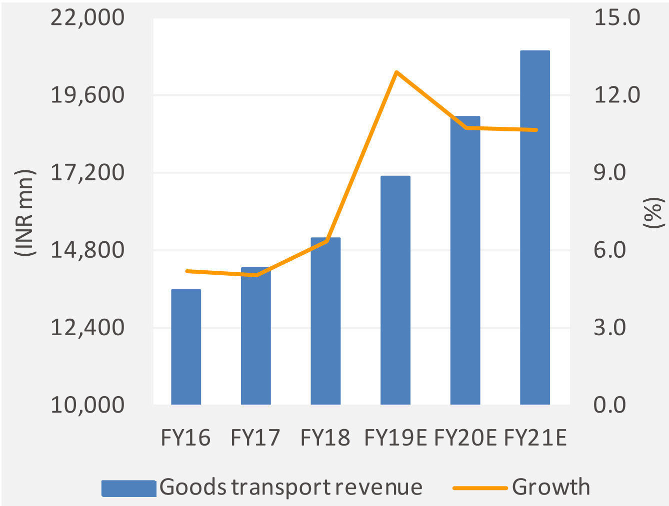
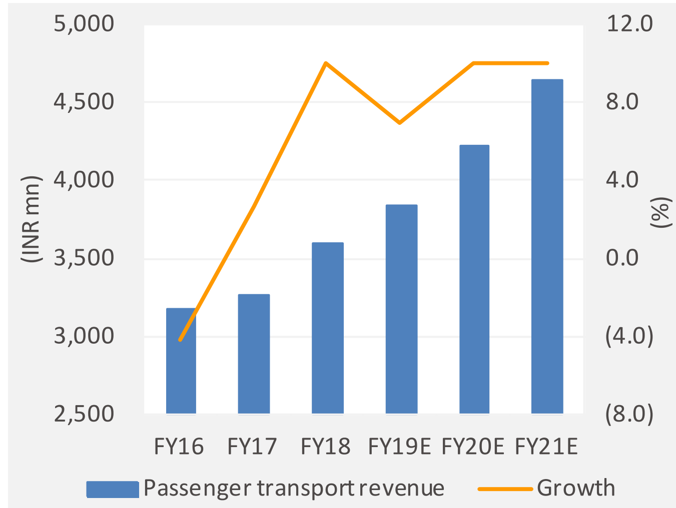


Chart 13: Passenger transportation to grow due to higher



Source: Company, Edelweiss research

EBITDA margin to remain stable over the next three-four years

Total EBITDA margin fell from around 16% in FY15 and FY16 to ~12% in FY17 primarily on account of higher increase in freight, handling & servicing costs and increased employee benefit expenses. We estimate EBITDA margin to remain at current level during FY19-21. Segment-wise, we believe EBITDA margin will remain flat ~11-12% during FY19-21E for the goods transport and passenger transport segments.

Chart 14: Goods transport EBITDA and margin evolution

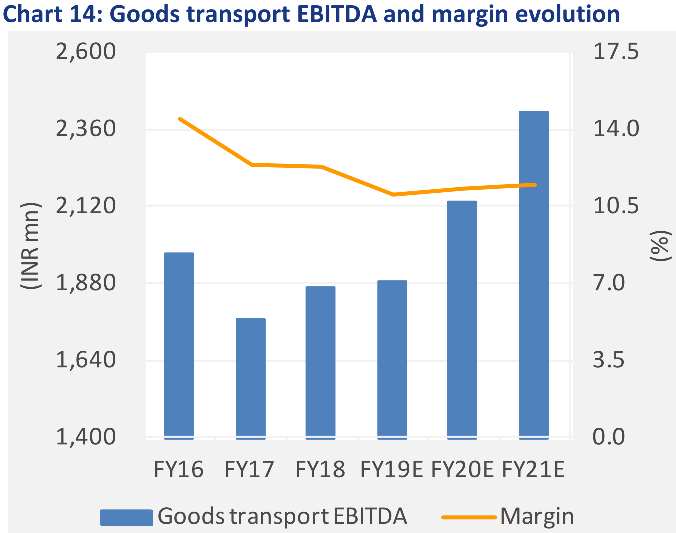
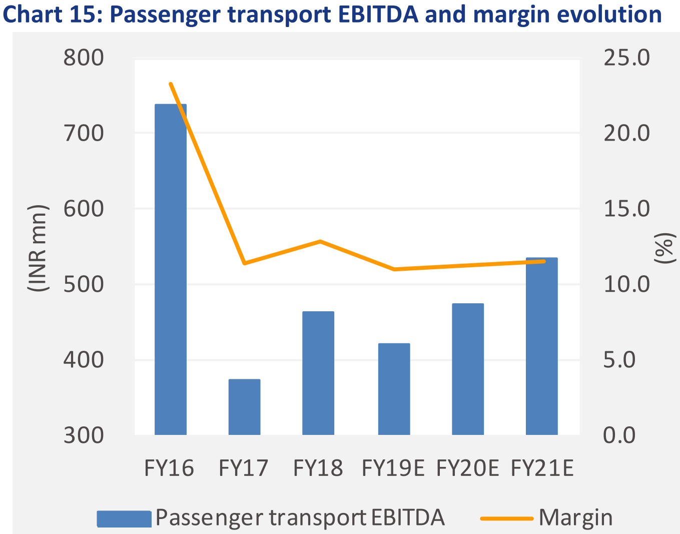


Chart 15: Passenger transport EBITDA and margin evolution



Source: Company, Edelweiss research

Chart 16: Downward trend in cash conversion ratio

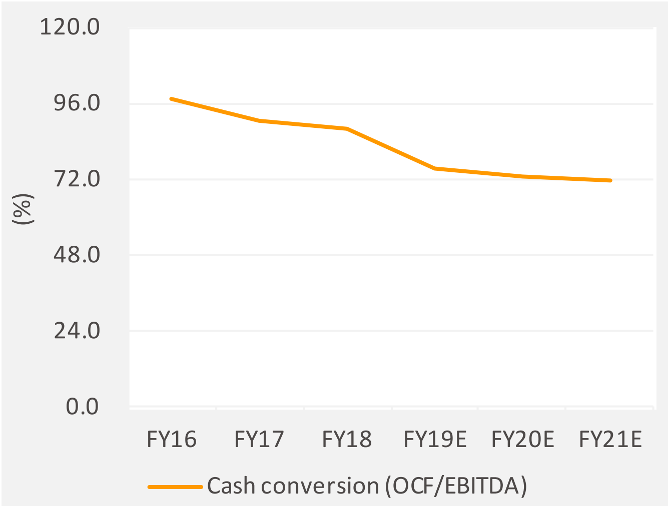
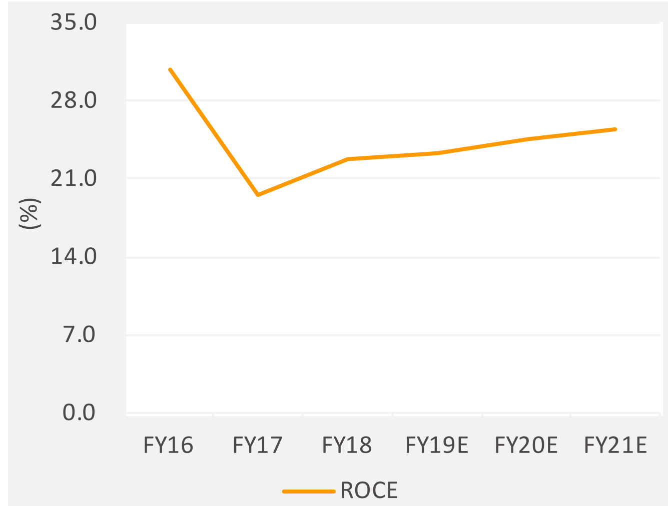


Chart 17: RoCE to be range bound between 20% and 25%



Source: Company, Edelweiss research

Company Description

VRL is a predominantly LTL based goods transporter (68.60% of total revenue for FY18) operating through a fleet of ~4,200 owned goods transport vehicles complemented by third party hired vehicles on need basis. It is listed on NSE and BSE.

Table 2: VRL—Key milestones

Year	Milestones
1976	Commencement of Transport service through proprietorship concern by Mr.Vijay Sankeshwar with a single truck
1983	Business converted into a private limited company by the name of Vijayanand Roadlines Private Limited
1992	Commencement of Courier Service within the state of Karnataka
1996	Commencement of Passenger Transportation Business
1997	Status of the company changed from a deemed public Limited company to Public Limited Company
2007	Company diversified into power generation installed 34 Wind Turbine Generators with capacity of 1.25 MW each
2008	Company entered into air charter business and purchased IA aircraft from Hawker Beechcraft Incorporation
2011	Foray into New Logistics Verticals – car carrying and Chemical Transportation
2012	Private Equity investment by NSR PE Mauritius LLC in the Company
2015	Company's shares listed on BSE and NSE

Source: Company

Table 3: Management overview

Key personnel	Profile
Dr. Vijay Sankeshwar Chairman and managing Director	Dr. Vijay Sankeshwar is actively involved in the day-to-day affairs of the Company, as a Whole Time Director. He holds a Bachelor's Degree in commerce from Karnataka University, Dharwad. He was a former Member of Parliament and was elected from the Dharwad (North) constituency in the 11th, 12th and 13th Lok Sabha elections and he was also a member of the Legislature of the State of Karnataka. He was a member of Central Government committees, such as, the Committee of Finance between 1996 and 1997, the Consultative Committee, Ministry of Surface Transport between 1996 and 2000 and the Committee of Transport and Tourism between 1998 and 2000. He has over three decades of experience in the transport industry.
Mr. Anand Sankeshwar Managing Director	Mr. Anand Sankeshwar supervises the marketing operations and he is actively involved in the day-to-day affairs of the Company, as a Whole Time Director. He holds a Bachelor's Degree in commerce from Karnataka University, Dharwad. He has 19 years of experience in the transport industry. He has been awarded the 'Youth Icon' award in 2004 by Annual Business Communicators of India and 'Marketing Professional of the Year' in the year 2005 by the Indira Group of Companies.
Mr. K N Umesh Director	Mr. K. N. Umesh, a Commerce graduate from Mysore University, worked as an accountant with M/s. Anil Rerolling Mills (P) Limited prior to joining VRL Logistics Limited on March 12, 1984. His area of expertise has been mainly in the formulation and implementation of the business policies and matters connected therewith. Prior to his joining the Board, he was designated as the Chief Operating Officer of the Company.
Mr. L R Bhat Director	Mr. L R Bhat holds a diploma in Mechanical Engineering from the State Board of Technical Education & Training, Tamil Nadu and is certified member of the Institute of Engineers in tool design. He has been associated with the Company since 1st July 1995. He heads the vehicle maintenance function.
Mr. Sunil Nalavadi CFO	Mr. Sunil Nalavadi holds a B Com from Karnataka University and is a qualified CA. He has been associated with VRL since Mar 2005.
Mr. Aniruddha A. Phadnavis Manager (Finance) and Company Secretary	Mr. Aniruddha A. Phadnavis holds a B Com from Karnataka University and is a Qualified Chartered Accountant, Qualified Company Secretary, Certified associate of the Indian Institute of Banking & Finance. He has been associated with VRL since Jun 2007
Mr. V V Karamadi National Head (Operations)	Mr. V V Karamadi has been associated with VRL since Oct 1995.
Mr. Prabhu A Salageri Vice President (Travels)	Mr. Prabhu A Salageri holds a post graduate degree in Commerce. He has been associated with VRL since Mar 1994.
Mr. D N Kulkarni Vice President (Finance)	Mr. D N Kulkarni holds a B Com from Karnatak University amd has been associated with VRL since Nov 1987.
Mr. Raghavendra B Malgi Vice President (Accounts)	Mr. Raghavendra B Malgi holds a B Com from Karnataka University and is CA. He has been associated with VRL since Jun 2009.
Mr. S R Hatti Vice President (Administration)	Mr. S R Hatti is a Master of Arts from Karnatak University. He has been associated with VRL since Nov 2004.
Mr. S G Patil Vice President (Human Resource Development)	Mr. S G Patil holds a bachelors' degree in law and a post graduate degree in political science from Karnataka University. He has been associated with VRL since Jun 2005.

Source: Company

Financial Statements

Key assumptions					(INR mn)
		FY18	FY19E	FY20E	FY21E
Macro	GDP(Y-o-Y %)	6.7	7.3	7.6	7.6
	Inflation (Avg)	3.6	4.5	5.0	5.0
	Repo rate (exit rate)	6.0	6.8	6.8	6.8
	USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector					
freight Industry size (USD bn)		150	164	179	196
Company					
Gowth in no. of vehicles owned (%)		1.7	1.5	1.5	1.5
Utilisation (%)		90.0	90.0	90.0	90.0
Freight realisation growth (%)		4.5	11.0	9.0	9.0
Passenger vehicles no. growth (%)		(5.5)	-	-	-
Passenge realisation growth (%)		7.9	10.0	10.0	10.0
Segmental sales growth (%)					
Goods transport		6.4	12.9	10.7	10.7
Passenger transport		10.0	6.9	10.0	10.0
Power		(7.4)	-	-	-
Air transport		(18.1)	5.0	5.0	5.0
Segmental EBITDA margins (%)					
Goods transport		12.3	11.0	11.3	11.5
Passenger transport		87.1	89.0	88.8	88.5
Power		73.9	74.0	74.0	74.0
Air transport		9.2	15.0	15.0	15.0
Cost and financial assumptions					
Gross margins (%)		31.4	29.9	29.1	28.5
Other expenses (%)		1.2	1.2	1.1	1.0
EBITDA margins (%)		12.2	11.7	11.9	12.0
Capex (INR mn)		(455)	(500)	(500)	(500)
Net borrowings (INR mn)		495	(536)	(1,747)	(3,218)
Receivable (days)		16	16	16	16
Payable (days)		1	1	1	1
Cash conversion cycle (days)		14	15	14	14

Income statement				(INR mn)
Year to March	**FY18**	**FY19E**	**FY20E**	**FY21E**
Net revenues	19,223	21,314	23,541	25,998
Freight, handling and servicing cost	13,189	14,951	16,681	18,594
Employee Benefit Expenses	3,458	3,631	3,812	4,003
Other expenses	234	246	258	271
Total expenditure	16,881	18,827	20,751	22,868
EBITDA	2,342	2,487	2,790	3,131
Depreciation & amortisation	976	1,020	1,075	1,130
EBIT	1,366	1,467	1,715	2,001
Less: Interest Expense	114	57	48	42
Add: Other income	142	100	113	156
Profit before tax	1,394	1,510	1,780	2,115
Provision for tax	468	507	598	711
Reported Profit	926	1,003	1,182	1,405
Adjusted Profit	926	1,003	1,182	1,405
No. of Shares outstanding (mn)	91.0	91.0	91.0	91.0
Adjusted Basic EPS	10.2	11.0	13.0	15.4
No. of Dilu. Sha. Outstand.(mn)	91.0	91.0	91.0	91.0
Adjusted Diluted EPS	10.2	11.0	13.0	15.4
Adjusted Cash EPS	20.0	22.2	24.8	27.8
Dividend per share (DPS)	-	3.5	3.5	3.5
Dividend Payout Ratio (%)	-	31.8	27.0	22.7

Common size metrics (% net revenues)

Year to March	FY18	FY19E	FY20E	FY21E
Other Expenses	1.2	1.2	1.1	1.0
EBITDA margins	12.2	11.7	11.9	12.0
EBIT margin	7.1	6.9	7.3	7.7
Interest	0.6	0.3	0.2	0.2
Net profit margin	4.8	4.7	5.0	5.4

Growth metrics (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	6.6	10.9	10.4	10.4
EBITDA	7.4	6.2	12.2	12.2
PBT	32.4	8.3	17.9	18.8
Adjusted Profit	31.4	8.3	17.9	18.8
EPS	31.7	8.3	17.9	18.8

Balance sheet (INR mn)

As on 31st March	FY18	FY19E	FY20E	FY21E
Share capital	903	903	903	903
Reserves & surplus	5,029	5,649	6,449	7,471
Shareholder equity	5,932	6,553	7,352	8,375
Long term borrowings	49	49	49	-
Short term borrowings	639	539	439	439
Total Borrowings	689	588	488	439
Long Term Lia.& Provisions	234	234	234	234
Deferred Tax Liability (net)	808	808	808	808
Sources of funds	**7,663**	**8,183**	**8,883**	**9,856**
Gross Block	9,019	9,519	10,019	10,519
Net Block	6,217	5,697	5,123	4,493
Capital work in progress	76	76	76	76
Intangible assets and Goodwill	7	7	7	7
Total net fixed assets	6,301	5,781	5,206	4,576
Non current investments	26	26	26	26
Other non-current assets	582	582	582	582
Cash and cash equivalents	194	1,124	2,235	3,657
Inventories	241	234	258	285
Sundry Debtors	807	876	967	1,068
Loans & Advances	110	122	135	149
Other Current Assets	362	401	443	489
Total Current Assets (ex cash)	1,521	1,633	1,803	1,991
Trade payable	68	70	77	85
Other CL & Short Term Provisions	891	891	891	891
Total CL & Provisions	960	961	969	977
Net Current Assets (ex cash)	561	671	835	1,015
Uses of funds	**7,663**	**8,183**	**8,883**	**9,856**
Book Value per share (INR)	65.2	72.0	80.8	92.0

Free cash flow

Year to March	FY18	FY19E	FY20E	FY21E
Reported Profit	926	1,003	1,182	1,405
Add: Depreciation	976	1,020	1,075	1,130
Add:Interest	77	39	32	28
Add: Others	(265)	(653)	(826)	(929)
Gross cash flow	1,713	1,408	1,463	1,633
Less: Changes in WC	(342)	(462)	(566)	(607)
Operating cash flow	2,056	1,869	2,029	2,240
Less: Capex	(455)	(500)	(500)	(500)
Free Cash Flow	1,601	1,369	1,529	1,740

Cash flow metrics

Year to March	FY18	FY19E	FY20E	FY21E
Operating cash flow	2,056	1,869	2,029	2,240
Financing cash flow	(1,543)	(540)	(531)	(473)
Investing cash flow	(442)	(400)	(387)	(344)
Net cash flow	70	929	1,111	1,423
Capex	(455)	(500)	(500)	(500)
Dividends paid	-	(382)	(382)	(382)

Profitability ratios

Year to March	FY18	FY19E	FY20E	FY21E
EBITDA margin	12.2	11.7	11.9	12.0
Pre-tax ROCE (%)	22.7	22.8	24.4	25.9
Return on Avg. Equity (ROAE) (%)	16.3	16.1	17.0	17.9
ROA (%)	12.0	12.7	13.9	15.0
Current ratio	1.8	2.9	4.2	5.8
Quick ratio	1.3	1.5	1.6	1.7
Cash ratio	0.2	1.2	2.3	3.7
Receivable turnover (x)	23.1	23.1	23.2	23.2
Payables turnover (x)	272.8	289.2	289.8	289.8
Receivables (days)	15.8	15.8	15.7	15.7
Payables (days)	1.3	1.3	1.3	1.3
Cash conversion cycle (days)	14.5	14.5	14.5	14.5
Net Debt/Equity	0.1	(0.1)	(0.2)	(0.4)
Debt/EBITDA	0.3	0.2	0.2	0.1
Adjusted debt/Equity (x)	0.1	0.1	0.1	0.1
Long term debt / Capital employe	0.6	0.6	0.6	-
Total debt / Capital employed (%)	9.0	7.2	5.5	4.5
Interest coverage (x)	11.9	25.5	35.4	47.9

Operating ratios (x)

Year to March	FY18	FY19E	FY20E	FY21E
Total asset turnover	2.5	2.7	2.8	2.8
Fixed asset turnover	2.9	3.6	4.3	5.4
Equity turnover	3.2	3.3	3.2	3.1

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adjusted Diluted EPS (INR)	10.2	11.0	13.0	15.4
Y-o-Y growth (%)	31.7	8.3	17.9	18.8
Adjusted Cash EPS (INR)	20.0	22.2	24.8	27.8
Dil. Price to Earn. Ratio (P/E) (x)	30.2	27.9	23.6	19.9
Price to Book Ratio (P/B) (x)	4.7	4.3	3.8	3.3
Enterprise Value / Sales (x)	1.5	1.3	1.1	1.0
Enterprise Value / EBITDA (x)	12.1	11.0	9.4	7.9
Dividend Yield (%)	-	1.1	1.1	1.1

Additional Data

Directors Data

Dr. Vijay Sankeshwar	Chairman & Managing Director	C Karunakara Shetty	Independent Director
Anand Sankeshwar	Managing Director	J S Korlahalli	Independent Director
L R Bhat	Whole Time Director	Mrs. Medha Pawar	Independent Director
K N Umesh	Whole Time Director	Dr. Anand Pandurangi	Independent Director
Dr. Prabhakar Kore	Independent Director	Shankarasa Ladwa	Independent Director

Auditors - Walker Chandiok & Co LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Reliance Nippon Life Asset Managem	6.55	ICICI Prudential Asset Management	5.23
Goldman Sachs Group Inc/The	2.44	Morgan Stanley	1.85
IDFC Mutual Fund/India	1.83	HDFC Asset Management Co Ltd	1.75
AllianceBernstein LP	1.40	Abu Dhabi Investment Authority	1.37
UTI Asset Management Co Ltd	0.85	BNP Paribas SA	0.75

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
30-Oct-18	AB SICAV I - INDIA GROWTH PORTFOLIO	BUY	706009	258.4
30-Oct-18	ALLIANCEBERNSTEIN INDIA GROWTH (MAURITIUS) LIMITED	SELL	706009	258.4

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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ADITYA NARAIN

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Date: 2018.11.26 12:35:02 +05'30'

Coverage group(s) of stocks by primary analyst(s): Logistics

Blue Dart, Container Corporation, Mahindra Logistics, TCI Express, Transport Corp, VRL

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

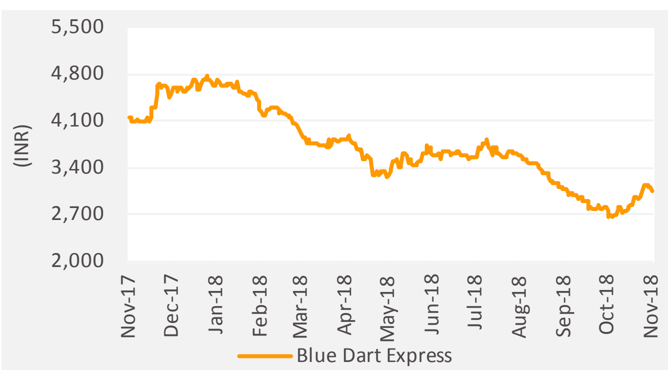
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

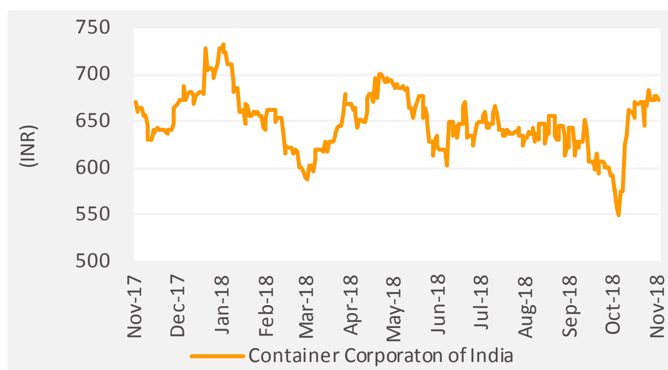
	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

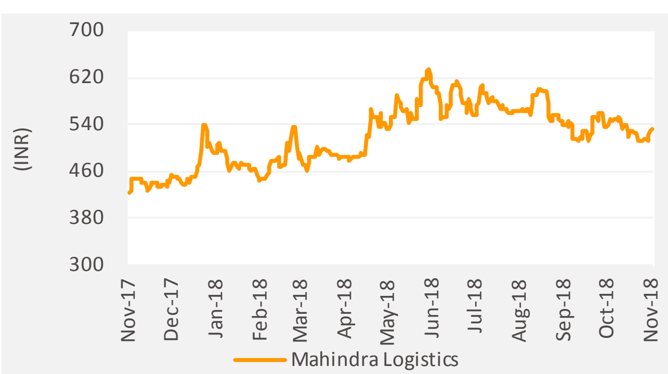
Rating Interpretation

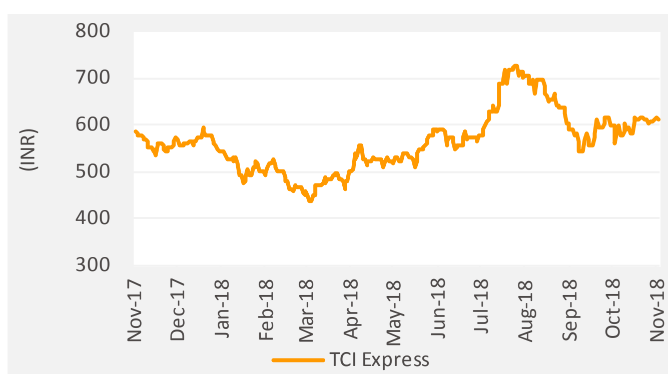
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

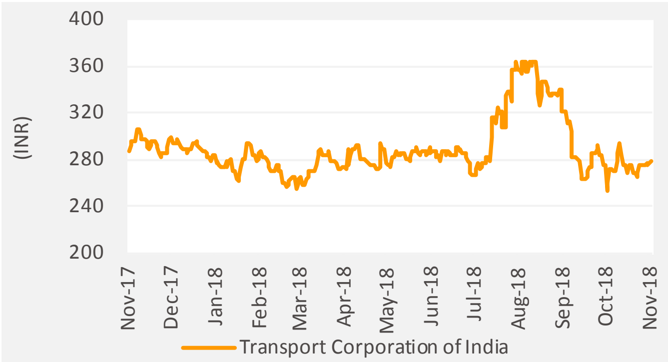
One year price chart










(INR)
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240
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Dec-17
Jan-18
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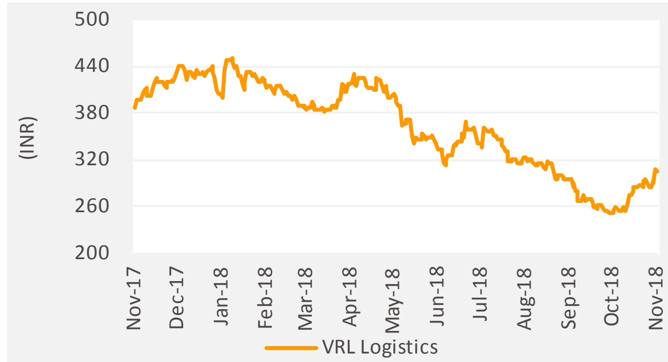
Nov-18
Transport Corporation of India


(INR)
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Nov-17
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Feb-18
Mar-18
Apr-18
May-18
Jun-18
Jul-18
Aug-18
Sep-18
Oct-18
Nov-18
VRL Logistics

NOTES:

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