Transport Corporation of India Limited

September 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial Paper	200.0	200.0	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a rating of [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs. 200.0-crore[1] commercial paper programme of Transport Corporation of India Limited (TCI)[2]. [ICRA]A1 is the highest credit quality rating assigned by ICRA to short-term debt instruments. Instruments rated in this category carry the lowest credit risk in the short-term. Within this category, certain instruments are assigned the rating of [ICRA]A1+ to reflect their relatively stronger credit quality.

Rationale

The rating reaffirmation factors in TCI's healthy operating performance, with the company continuing to benefit from its brand strength, widespread infrastructure and integrated multimodal operational profile. The company's market leadership position and strong distribution network, coupled with its asset light business model has helped to counter business downturns over the years and maintain a stable profitability. A pickup in load availability in the economy, coupled with an expectation of a gradual shift in preference towards the organised players in the transportation business (in the post Goods and Services Tax/GST era), bodes well for its growth prospects over the short to medium term. This is likely to help TCI in maintaining strong debt coverage and return indicators. The utilisation of the working capital limits sanctioned to the company is likely to remain at moderate levels, thereby resulting in a comfortable liquidity profile.

The company continues to enjoy a strong market position in freight and supply chain services businesses, besides healthy presence in the shipping logistics business through the seaways division. While the fragmented nature of the transportation business leads to stiff competition, TCI's diversified customer base and healthy proportion of contracted business provide adequate revenue visibility over the medium term. While delays in payments from customers, especially in the freight division, have led to an elongated receivable cycle, TCI has been able to maintain its working capital intensity at manageable levels. The company has capex plans (~Rs. 200-225 crore/annum) for strengthening its infrastructure in the supply chain services and seaways division. In this regard, an expectation of steady cash accruals is likely to help TCI in maintaining a conservative capital structure going forward.

ICRA notes that the proceeds from the rated commercial paper programme are intended to be utilised for funding the working capital requirements, as per the objects of the issue. Although unlikely, any deviation from the above, which has the effect of exerting pressure on the asset-liability position of the company, would be a rating sensitivity.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Established operational track record, widespread network/infrastructure and strong brand strength – TCI is one of the leading integrated multimodal logistics services providers in the country. It has an established brand strength in the logistics industry and enjoys access to a widespread distribution network on a pan-India basis.

Presence in multiple businesses provides cushion against business downturns – TCI has a diversified business profile, which protects it from any business downturns in a particular business. The company is organised into three main divisions— freight, supply chain solutions (SCS), and TCI seaways, besides other, smaller divisions. Even after the demerger of the express distribution business into a separate entity, its business profile remains adequately diversified, with freight and SCS being the key revenue contributors, constituting ~47% and ~41%, respectively, of TCI's revenues. While the revenue contribution of the seaways division remains relatively low at ~12%, it still constitutes a healthy proportion of the company's profits (~39% of PBIT in FY2018).

Diversified customer base; high share of contracted business provides revenue visibility – TCI has a diversified customer base, which has remained fairly stable over the years. The business caters to various industries that accounts for a healthy proportion of its revenues. Although the fragmented nature of the transportation business leads to intense competition, TCI continues to have a healthy proportion of contracted business. This coupled with the diversified customer mix insulates the business from any downturn in demand in a particular industry, thereby providing healthy revenue visibility.

Strong financial risk profile characterised by conservative capital structure and strong debt coverage indicators – The company's capital structure remains conservative in nature, as depicted from its gearing of 0.6 times as on March 31, 2018. The stable profitability has helped TCI to report strong debt coverage indicators with interest coverage of 6.9 times, total debt/OBDITA of 2.0 times and NCA/total debt of 36.9% in FY2018. Going forward, it has budgeted a capex of about Rs. 200-225 crore/annum towards strengthening of infrastructure (both fleet and warehouses). In spite of the significant capex plans, the cash accruals are likely to help the company in maintaining a healthy financial risk profile.

Credit challenges

Profitability of the freight division remains suppressed due to stiff competition with limited scope of passing on increased costs to customers – TCI's freight division, which remains asset light in nature, continues to be exposed to fluctuations in hire charges for market vehicles, since the rates are primarily dependent on the demand–supply position. Additionally, since the company enters into freight contracts with various customers, its ability to pass through any variation in fuel prices remains critical in helping it in maintaining its profitability margin.

Elongated receivable cycle as a result of delays in payments from various customers in freight division – The company's operations are working capital intensive in nature, characterised by an elongated receivable cycle, especially in the freight division. TCI has, however, managed to keep its overall debtors in check despite a weakening liquidity position of some of its customers, with the company selectively terminating business with customers that have been delaying payments.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology]

About the company

TCI, incorporated in 1958, is the largest transport company in India in the organised sector with a nationwide reach. It started as a conventional road transport company. Subsequent to going public in 1974, TCI diversified its activities into sea cargo movements by setting up TCI Seaways Ltd. In 1989, the TCI Group further diversified into surface cargo movement, on the express mode, by launching its express transportation service—GATI. However, in 1996, post the family division of assets among the seven sons of Late Mr. P. D. Agarwal, GATI was divested as a separate company.

TCI has diversified revenue streams and operates through multiple divisions. It was organised into four main divisions—freight, XPS, SCS and seaways, besides a smaller, wind power division till March 2016. Following a decision to demerge TCI XPS into a new entity (the appointed date of demerger was at the close of business hours on March 31, 2016), however, the company at present has three primary divisions. It also has two joint ventures (JVs), Transystem Logistics International Pvt. Ltd. (JV with Mitsui & Co. (Japan)) and TCI-Concor (JV with Container Corporation of India).

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	1,805.9	2,179.9
PAT (Rs. crore)	70.3	103.8
OPBDIT/OI (%)	8.9%	9.7%
RoCE (%)	13.2%	16.3%
Total Debt/TNW (times)	0.7	0.6
Total Debt/OPBDIT (times)	2.5	2.0
Interest Coverage (times)	5.6	6.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
					Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Sep 2018	Sep 2017	Sep 2016	Sep 2015	Jul 2015	Jul 2015
1	Commercial Paper	Short Term	200.0	**170.0**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE688A14HK1	Commercial Paper	Jun 2018	-	Sep 2018	60.0	[ICRA]A1+
INE688A14HL9	Commercial Paper	Jul 2018	-	Sep 2018	50.0	[ICRA]A1+
INE688A14HM7	Commercial Paper	Jul 2018	-	Oct 2018	60.0	[ICRA]A1+

Source: Transport Corporation of India Limited

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About ICRA Limited:

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