

BUY

TP: Rs 365 | ▲ 39%

TRANSPORT CORP OF INDIA

| Logistics

| 30 July 2019

Slowdown weighs on topline growth; margin expansion stands out

Transport Corp (TRPC) reported a below-estimated operating performance in Q1FY20 amidst challenging macros. Consolidated revenue grew 5.5% YoY to Rs 6.6bn (est. of Rs 7bn), led by the seaways segment (+10% YoY). EBITDA at Rs 584mn (+11.5% YoY) also underperformed, but adj. PAT growth (+15.8% YoY) was broadly in line, aided by higher profit by the Transystem JV. We prune our EBITDA estimates by ~2% each in FY20/FY21. Our TP remains at Rs 365 as we roll forward to Jun'21 valuations. Maintain BUY.

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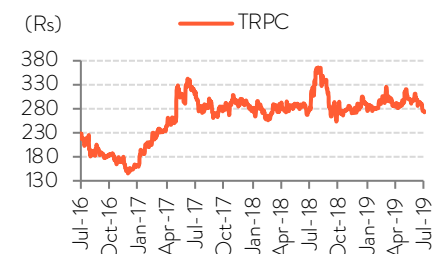
Growth subdued across segments: General economic sluggishness exacerbated by a slowdown in the key auto sector weighed on TRPC's growth across segments. While growth deceleration in freight (+5.3% YoY) and supply chain (+2.7% YoY) was on the cards, the seaways segment disappointed with soft growth (+10% YoY) despite a higher number of ships YoY (one ship added in Q2FY19). As per management, topline performance could have been better but for its strategic decision not to pursue unprofitable business opportunities.

Ticker/Price	TRPC IN/Rs 263
Market cap	US\$ 292.9mn
Shares o/s	77mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 330/Rs 260
Promoter/FPI/DII	67%/2%/10%

Source: NSE

Recovery expected in H2FY20: Topline growth is likely to remain tepid in Q2 as well, before festive season demand aids a potential revival in H2FY20. TRPC has thus maintained its FY20 revenue growth guidance of ~15%.

STOCK PERFORMANCE



Source: NSE

Margin expansion a key positive: Subdued revenue growth notwithstanding, TRPC's profitability focus has yielded consolidated EBITDA margin expansion of 48bps YoY to 8.9%. This was also aided by lower operating expenses/other expenses (-51bps/-28bps YoY). EBIT margins for freight/supply chain/seaways expanded 24bps/2bps/77bps YoY to 2.7%/6.9%/19.8%.

Maintain BUY: We prune our estimates marginally given the Q1FY20 miss, but maintain our Jun'20 SOTP-based TP at Rs 365.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	1,238	1,460	1,692	1,960	2,324
Adj. EPS (Rs)	16.2	19.0	22.1	25.6	30.3
Adj. EPS growth (%)	52.4	17.7	15.9	15.8	18.6
Adj. ROAE (%)	17.6	17.7	17.5	17.4	17.8
Adj. P/E (x)	16.3	13.8	11.9	10.3	8.7
EV/EBITDA (x)	11.0	9.8	8.7	7.5	6.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	6,592	6,250	5.5	7,427	(11.2)
Operating expenses	5,369	5,122	4.8	5,939	(9.6)
% of sales	81.5	82.0	(51bps)	80.0	149bps
Employee expenses	384	345	11.3	350	9.7
% of sales	5.8	5.5	31bps	4.7	111bps
Other expenses	255	259	(1.7)	352	(27.6)
% of sales	3.9	4.1	(28bps)	4.7	(87bps)
Total expenditure	6,008	5,726	4.9	6,640	(9.5)
EBITDA	584	524	11.5	787	(25.8)
EBITDA margin (%)	8.9	8.4	48bps	10.6	(173bps)
Depreciation	199	171	16.5	202	(1.3)
EBIT	385	353	9.1	585	(34.2)
Interest expenses	87	74	17.6	96	(9.5)
Other income	35	43	(18.3)	50	(30.2)
PBT	333	322	3.5	539	(38.2)
PBT margin (%)	5.1	5.2	(10bps)	7.3	(221bps)
Extraordinary income/(expense)	-	-	-	7	NM
Share of profit/(loss) from JV	84	53	59.2	54	10.3
PBT - after share of profit/(loss) from JV	417	374	11.3	586	(28.9)
Tax rate	72	77	(6.2)	102	(29.5)
Tax rate (%) – total	21.7	23.9	(225bps)	19.0	268bps
Reported PAT	344	297	15.8	484	(28.8)
Adjustment	-	-	-	(7)	NM
Adjusted PAT	344	297	15.8	491	(29.8)
Adjusted PAT margin (%)	5.2	4.8	47bps	6.6	(138bps)
Adjusted EPS	4.5	3.9	15.8	6.2	(27.8)

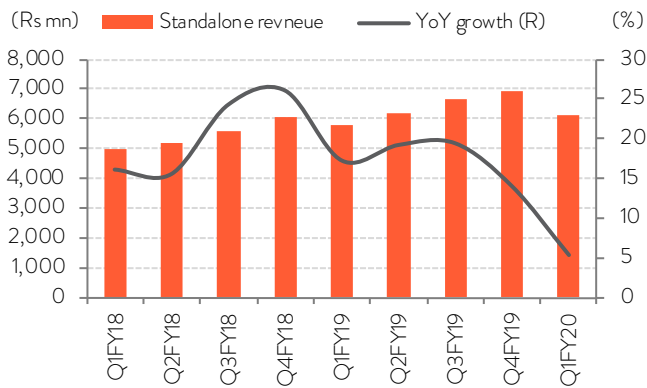
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Freight segment					
Revenue	3,386	3,216	5.3	3,736	(9.4)
EBIT	90	78	15.9	143	(36.9)
EBIT margin	2.7	2.4	24bps	3.8	(116bps)
Supply chain management segment					
Revenue	2,439	2,375	2.7	2,706	(9.8)
EBIT	168	163	3.0	208	(19.6)
EBIT margin	6.9	6.8	2bps	7.7	(84bps)
Seaways segment					
Revenue	789	715	10.3	1,088	(27.5)
EBIT	157	136	14.7	294	(46.8)
EBIT margin	19.8	19.1	77bps	27.0	(719bps)

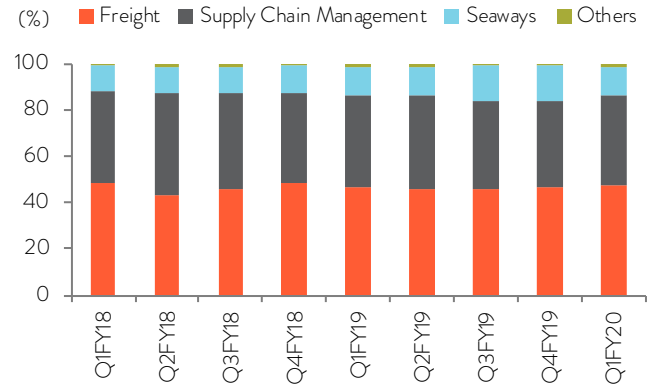
Source: Company, BOBCAPS Research

FIG 3 – STANDALONE REVENUE GROWTH EASED TO 5.3% YOY



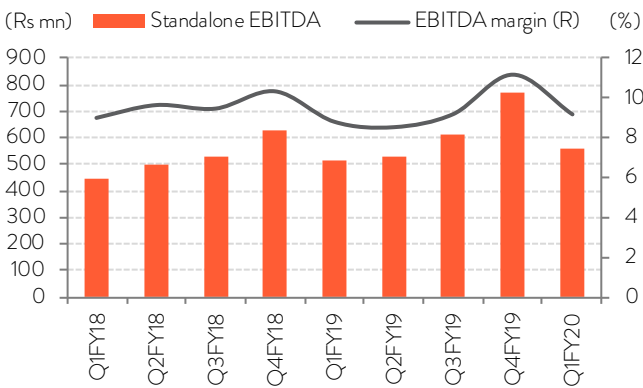
Source: Company, BOBCAPS Research

FIG 4 – SEAWAYS SEGMENT REVENUE SHARE CONTINUES TO TREND UP



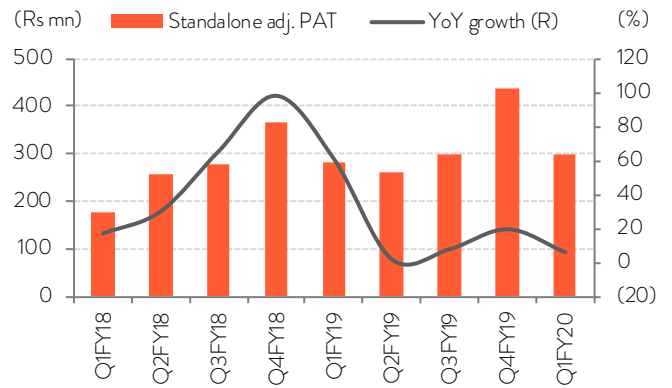
Source: Company, BOBCAPS Research

FIG 5 – STANDALONE EBITDA MARGIN EXPANDED 36BPS YOY TO 9.2%



Source: Company, BOBCAPS Research

FIG 6 – STANDALONE ADJ. PAT GREW 5.5% YOY TO RS 297MN



Source: Company, BOBCAPS Research

Valuation methodology

We pare our revenue/EBITDA estimates for FY20/FY21 by 2.3% each. We also lower our other income forecast, leading to a 3.6%/2.9% cut in PBT before share of profit from JVs. The impact on FY20/FY21 earnings is lower at 2.6%/2.2% as we raise our profit estimate from the Transystem JV factoring in its healthy performance in Q1FY20.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Revenues	31,499	30,790	(2.3)	36,403	35,576	(2.3)	41,106
EBITDA	2,920	2,857	(2.3)	3,508	3,429	(2.3)	4,035
EBITDA margin (%)	9.3	9.3	0bps	9.6	9.6	0bps	9.8
PBT before share of profit/(loss) of JV	1,781	1,717	(3.6)	2,099	2,038	(2.9)	2,486
Share of profit/(loss) of JV	312	336	7.7	324	349	7.8	384
PAT	1,737	1,692	(2.6)	2,003	1,960	(2.2)	2,324
PAT margin (%)	5.5	5.5	0bps	5.5	5.5	0bps	5.7

Source: Company, BOBCAPS Research

We value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core businesses and P/E multiple to the Transystem JV. Post estimate revision and rollover to Jun'21 valuations, our target price remains unchanged at Rs 365. Maintain BUY.

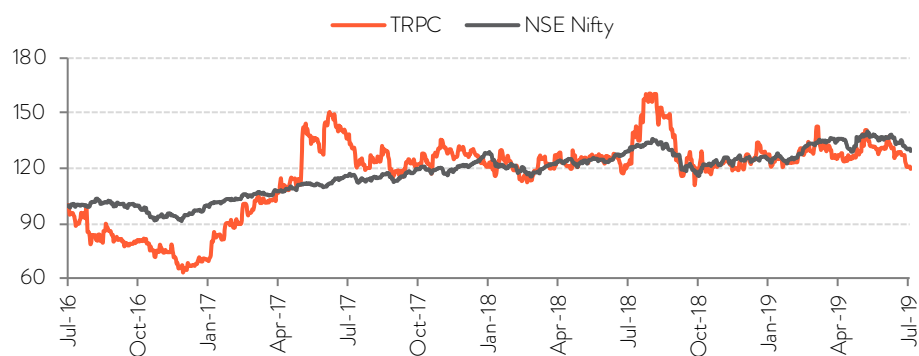
FIG 8 – KEY VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
Freight segment	
12-month ending Jun'21E EBITDA	779
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	5,451
Supply chain segment	
12-month ending Jun'21E EBITDA	1,391
EV/EBITDA multiple applied (x)	10.0
Total EV for the segment	13,915
Seaways segment	
12-month ending Jun'21E EBITDA	1,531
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	10,717
Total EV of the consolidated business (ex. JV)	30,083
Net debt	5,578
Equity value of the consolidated business (ex. JV)	24,505
12-month ending Jun'21E EPS of Transystem Logistics	731
P/E multiple applied (x)	10
Fair value of Transystem Logistics	7,307
Share of TRPC (%)	49

Segment-wise valuation	(Rs mn)
Valuation attributed to TRPC	3,581
Total equity value including JV	28,086
No. of shares	76.7
Target price	365

Source: Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

The main downside risks to our estimates are:

- a sharp increase in diesel prices,
- delay in demand recovery in the key auto sector,
- high client attrition in the supply chain business, and
- lower-than-expected utilisation in the seaways segment.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	23,499	27,536	30,790	35,576	41,106
EBITDA	2,165	2,495	2,857	3,429	4,035
EBIT	1,478	1,721	1,956	2,299	2,731
Net interest income/(expenses)	(322)	(374)	(437)	(480)	(464)
Other income/(expenses)	144	195	198	219	220
Exceptional items	0	0	0	0	0
EBT	1,301	1,542	1,717	2,038	2,486
Income taxes	(287)	(333)	(361)	(428)	(547)
Extraordinary items	0	(7)	0	0	0
Min. int./Inc. from associates	224	251	336	349	384
Reported net profit	1,238	1,453	1,692	1,960	2,324
Adjustments	0	7	0	0	0
Adjusted net profit	1,238	1,460	1,692	1,960	2,324

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	597	674	662	765	884
Other current liabilities	805	1,336	1,687	1,949	2,252
Provisions	55	65	73	84	97
Debt funds	4,411	4,722	5,962	5,762	5,162
Other liabilities	0	0	0	0	0
Equity capital	153	153	153	153	153
Reserves & surplus	7,511	8,819	10,307	12,030	13,934
Shareholders' fund	7,664	8,972	10,460	12,184	14,087
Total liabilities and equities	13,533	15,770	18,844	20,743	22,482
Cash and cash eq.	142	155	384	339	600
Accounts receivables	4,249	5,151	5,905	6,823	7,883
Inventories	33	53	59	69	79
Other current assets	1,198	1,583	1,760	2,034	2,350
Investments	1,044	1,168	1,168	1,168	1,168
Net fixed assets	6,252	7,263	9,153	9,772	9,718
CWIP	563	40	0	0	0
Intangible assets	6	5	5	5	5
Deferred tax assets, net	(445)	(390)	(390)	(390)	(390)
Other assets	491	741	799	924	1,067
Total assets	13,533	15,770	18,844	20,743	22,482

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,925	2,234	2,593	3,090	3,628
Interest expenses	322	374	437	480	464
Non-cash adjustments	50	(55)	0	0	0
Changes in working capital	(832)	(940)	(649)	(949)	(1,096)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,465	1,613	2,381	2,621	2,996
Capital expenditures	(1,523)	(1,261)	(2,750)	(1,750)	(1,250)
Change in investments	(177)	(124)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,700)	(1,386)	(2,750)	(1,750)	(1,250)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	595	312	1,239	(200)	(600)
Interest expenses	(322)	(374)	(437)	(480)	(464)
Dividends paid	(123)	(138)	(204)	(236)	(420)
Other financing cash flows	40	(14)	0	0	0
Cash flow from financing	191	(214)	598	(916)	(1,484)
Changes in cash and cash eq.	(44)	13	229	(45)	262
Closing cash and cash eq.	142	155	384	339	600

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	16.2	19.0	22.1	25.6	30.3
Adjusted EPS	16.2	19.0	22.1	25.6	30.3
Dividend per share	1.6	1.8	2.2	2.6	4.5
Book value per share	99.5	116.4	135.8	158.2	183.1

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.0	0.9	0.8	0.7	0.6
EV/EBITDA	11.0	9.8	8.7	7.5	6.3
Adjusted P/E	16.3	13.8	11.9	10.3	8.7
P/BV	2.6	2.3	1.9	1.7	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	95.2	94.7	98.6	96.1	93.5
Interest burden (PBT/EBIT)	88.0	89.6	87.8	88.7	91.0
EBIT margin (EBIT/Revenue)	6.3	6.2	6.4	6.5	6.6
Asset turnover (Revenue/Avg TA)	2.0	2.1	2.0	2.0	2.2
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.6	1.6	1.5
Adjusted ROAE	17.6	17.7	17.5	17.4	17.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	21.0	17.2	11.8	15.5	15.5
EBITDA	33.6	15.3	14.5	20.1	17.7
Adjusted EPS	52.4	17.7	15.9	15.8	18.6
Profitability & Return ratios (%)					
EBITDA margin	9.2	9.1	9.3	9.6	9.8
EBIT margin	6.3	6.2	6.4	6.5	6.6
Adjusted profit margin	5.3	5.3	5.5	5.5	5.7
Adjusted ROAE	17.6	17.7	17.5	17.4	17.8
ROCE	12.7	12.9	12.7	13.1	14.4
Working capital days (days)					
Receivables	67	66	68	70	70
Inventory	1	1	1	1	1
Payables	10	10	9	9	9
Ratios (x)					
Gross asset turnover	3.4	3.2	2.9	2.7	2.8
Current ratio	3.9	3.3	3.3	3.3	3.4
Net interest coverage ratio	4.6	4.6	4.5	4.8	5.9
Adjusted debt/equity	0.6	0.5	0.5	0.4	0.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

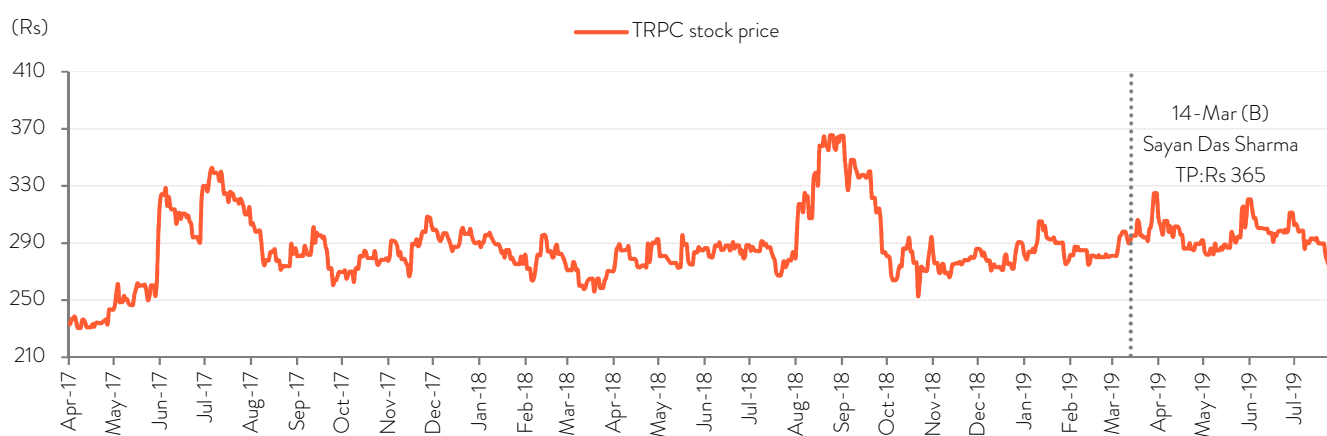
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: TRANSPORT CORP OF INDIA (TRPC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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