

Transport Corporation of India

BUY



Decent show amidst challenges

Institutional Research

CMP (Rs)	210
Target (Rs)	310
Upside (%)	47%

Nifty: 11,300 Sensex: 38,310

Key Stock Data

Bloomberg	TRPC IN
Shares O/s Mn (FV INR10)	76.8
Mkt Cap(USD Mn/INR Bn)	0.2/15.7
52-week high/low	313/121
6m daily avg vol(INR Mn)	9
Free Float %	29

Price Performance

(%)	3m	1yr	3yr
TRPC	28.0	(21.5)	(9.1)
Nifty	21.6	5.2	6.7
NSE500	22.2	6.3	4.8
BSE Midcap	22.2	6.3	0.4

Shareholding Pattern

(%)	Dec19	Mar20	Jun20
Promoter	28.0	(21.5)	(9.1)
FII	21.6	5.2	6.7
DII	22.2	6.3	4.8
Others	22.2	6.3	0.4

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Despite challenges, Transport Corporation of India (TCI) reported a decent number, especially on the earnings front. Revenue was lower by 46% y-o-y to Rs 3.3bn. The impact of lockdown was more visible on SCM and LTL segment of transport division. Transport and SCM divisions witnessed a revenue decline of 47% and 55% y-o-y respectively. Whereas coastal shipping division emerged as more resilient as despite the low volumes and higher competitions amid lockdown, revenue was lower by just 13% y-o-y. TCI managed it well on the cost front as despite severe pressure on business, EBITDA margin compressed by just 70bps y-o-y to 8.5%. Net profit was lower by 67% y-o-y to Rs 99mn. Going ahead, we expect good recovery in the coming quarters as all divisions are showing good improvement in utilization and likely to see full growth recovery in H2FY21 onwards. We remain positive on TCI on the back of its large logistics infrastructure and proven track record of execution across verticals. Its agility to manage the costs in the current environment surprised us positively. Despite stock price appreciation of 32% since our last update, its current valuation at 8x PE on FY22E earnings is still attractive. Maintain 'Buy'.

Decent recovery across verticals post lockdown

Though most of its business verticals were operating throughout the lockdown period but due to significant pressure on manufacturing, availability of cargo was very low. However, post lockdown it started witnessing a good recovery and all business verticals are showing good improvement in utilization. The freight division reported a revenue decline of 47% y-o-y mainly on account of much lower movement of goods across sectors and severe pressure on LTL segment. However, despite pressure the freight division able to ramp up operations to 55-60%. Going ahead we believe the freight division will see healthy recovery due to its large network.

The Coastal shipping division was least affected as it reported a revenue decline of 13.5% y-o-y mainly due to addition of large new ship and better occupancy post lockdown. Despite low cargo and high competition, coastal shipping witnessed good occupancy and currently operating at 80% plus level. Addition of new ship also supported in reporting relatively better performance.

SCM – Higher growth in non-auto segment came to rescue

SCM division witnessed a double whammy of lockdown and significant pressure on domestic auto sector which contribute the most to SCM revenue. However, SCM revenue declined of 56% y-o-y is much better than industry due to better traction in non-auto segment. Auto logistics remained under pressure in-line with domestic automobile industry. Within non-auto logistics, TCI witnessed a very healthy traction in E-Commerce segment where it generated a good business from fulfilment center management. Over the near term, we don't see any significant recovery as pressure is still there on dependent sectors especially automobile. However, better growth traction from emerging business avenues like warehousing, fulfilment center management, etc. will help in compensating the lower business from auto logistics business. Further, within the automobile segment it started getting early green shoots in two wheelers and farm equipment. We remain positive on SCM business over the medium to longer term on the back of superior offerings, wide client base and hybrid business model.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Sales	23,461	27,537	27,178	25,308	30,363
yoy (%)	20.8	17.4	-1.3	-6.9	20.0
EBITDA	2,127	2,495	2,405	2,178	2,957
yoy (%)	32.4	17.3	-3.6	-9.4	35.7
PAT	1,238	1,453	1,432	1,232	1,983
yoy (%)	52.4	17.3	-1.4	-14.0	61.0
EBITDAM (%)	9.1%	9.1%	8.9%	8.6%	9.7%
NPM (%)	5.3%	5.3%	5.3%	4.9%	6.5%
EPS (Rs)	16.2	19.0	18.6	16.0	25.8

Exhibit 2: Key Indicators

Y/E Mar	FY18	FY19	FY20	FY21E	FY22E
Equity	153.2	153.3	153.7	153.7	153.7
RoE (%)	17.6	17.6	14.9	11.5	16.3
RoCE (%)	14.8	15.6	13.2	10.7	14.6
ROIC (%)	15.1	15.8	14.1	12.2	16.1
D:E (x)	0.5	0.5	0.4	0.3	0.3
PER (x)	12.8	10.9	11.1	12.9	8.0
P/BV (x)	2.1	1.8	1.6	1.4	1.2
EV/Sales (x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA (x)	9.2	8.0	8.0	8.5	6.2

Cost management restricted otherwise sharp margin compression

EBITDA margin compressed by 70bps y-o-y to 8.5%. The company managed its costs well especially in admin and staff costs which were lower by 49% and 23% y-o-y. Despite a decent recovery, coastal shipping witnessed a higher pressure on margin due to usage of high-priced low sulfur fuel inline with IMO regulation. Whereas margin compression in other divisions were not that severely affected and likely to recover fast.

Outlook & Valuation

TCI witnessed a better recovery than expected and its agility to manage the costs surprised us positively. We expect growth recovery from H2FY21 onwards. We remain positive on TCI on the back of its large logistics infrastructure and proven track record of execution across verticals which will help it winning new accounts/clients across verticals. At CMP, TCI trades at 13x and 8x on FY21E and FY22E earnings respectively. We maintain 'Buy' with the price target of Rs 310 based on 12x FY22E earnings.

Exhibit 3: 1QFY21 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	y-o-y change	q-o-q change	FY20	FY19	y-o-y change
Income from operations	6,121	6,282	6,473	6,257	3,280	-46.4%	-47.6%	25,134	25,561	-1.7%
Less: Expenditures										
Operating cost	4,942	5,062	5,241	5,025	2,587	-47.7%	-48.5%	20,270	20,695	-2.1%
Staff cost	372	374	370	408	289	-22.5%	-29.2%	1,524	1,358	12.2%
Other op. & admin cost	245	281	235	245	126	-48.6%	-48.6%	1,005	1,088	-7.6%
EBITDA	562	566	627	580	279	-50.5%	-52.0%	2,335	2,420	-3.5%
Other Income	75	84	58	67	89	18.2%	33.6%	283	291	-2.6%
Depreciation	186	190	204	197	195	4.9%	-0.7%	777	738	5.2%
EBIT	451	459	481	450	172	-61.8%	-61.7%	1,841	1,973	-6.7%
Interest	82	77	84	80	70	-15.5%	-12.8%	324	356	-9.1%
Profit Before Tax	369	382	396	370	103	-72.2%	-72.2%	1,518	1,617	-6.1%
Tax	72	(49)	75	57	4	-94.3%	-92.8%	155	326	-52.7%
Profit after Tax	297	432	321	313	99	-66.8%	-68.5%	1,363	1,291	5.6%
Extraordinary items	-	(99)						(99)	-	NA
Net Profit	297	333	321	313	99	-66.8%	-68.5%	1,264	1,291	-2.0%
EPS	3.87	4.33	4.18	4.07	1.28	-66.8%	-68.5%	16.45	16.79	-2.0%
Operating Matrix						bps	bps			bps
Operating cost/Sales	80.7%	80.6%	81.0%	80.3%	78.9%	(186)	(143)	80.6%	81.0%	(31)
Staff cost/Sales	6.1%	5.9%	5.7%	6.5%	8.8%	272	229	6.1%	5.3%	75
Others/Sales	4.0%	4.5%	3.6%	3.9%	3.8%	(16)	(8)	4.0%	4.3%	(26)
EBITDA Margin	9.2%	9.0%	9.7%	9.3%	8.5%	(69)	(78)	9.3%	9.5%	(18)
Net Margin	4.9%	5.3%	5.0%	5.0%	3.0%	(185)	(199)	5.0%	5.0%	(2)
ETR	19.4%	-12.8%	18.9%	15.5%	4.0%	(1,539)	(1,147)	10.2%	20.2%	(1,001)

Source: Company, AMSEC Research,

Exhibit 4: 1QFY21 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	y-o-y change	q-o-q change	FY20	FY19	y-o-y change
Revenue										
Transport Division	2,990	3,058	3,203	3,227	1,578	-47.2%	-51.1%	12,478	12,096	3.2%
XPS Division										
Supply Chain Solutions Division	2,391	2,413	2,368	2,078	1,056	-55.8%	-49.2%	9,250	10,189	-9.2%
TCL Seaways Division	789	854	989	1,046	682	-13.5%	-34.8%	3,677	3,593	2.3%
Wind Power Division	15	30	5	6	14	-7.5%	130.5%	55	69	-20.8%
Intersegments/ Others	(63)	(73)	(91)	(33)	39	-162.2%	-219.0%	(259)	(387)	-33.0%
Total	6,121	6,282	6,473	6,257	3,280	-46.4%	-47.6%	25,134	25,561	-1.7%
EBIT										
Transport	83.0	90.7	116.6	116.7	20.4	-75.4%	-82.5%	407.0	383.5	6.1%
SCM	167.5	160.1	131.4	101.2	31.4	-81.3%	-69.0%	560.2	710.3	-21.1%
Coastal	156.5	145.4	226.3	225.0	40.6	-74.1%	-82.0%	753.2	735.0	2.5%
Wind Power	5.3	20.4	(1.3)	(0.1)	7.7	45.3%	-7800.0%	24.3	34.1	-28.7%
Total	412.3	416.6	473.0	442.8	100.1	-75.7%	-77.4%	1,744.7	1,862.9	-6.3%
EBIT Margin						bps	bps			
Transport	2.8%	3.0%	3.6%	3.6%	1.3%	(148)	(232.4)	3.3%	3.2%	9.1
SCM	7.0%	6.6%	5.6%	4.9%	3.0%	(403.3)	(189.8)	6.1%	7.0%	(91.5)
Coastal	19.8%	17.0%	22.9%	21.5%	6.0%	(1,389.2)	(1,556.6)	20.5%	20.5%	2.8
Wind Power	36.1%	68.7%	-28.3%	-1.7%	56.6%	2,056.3	5,831.3	44.3%	49.2%	(494.4)
Total	6.7%	6.6%	7.3%	7.1%	3.1%	(368.4)	(402.5)	6.9%	7.3%	(34.6)

Source: Company, AMSEC Research

Financials (Consolidated)**(Rs mn)****Profit and Loss Account**

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
Operating Income	23,461	27,537	27,178	25,308	30,363
Less:					
Operating expenses	19,068	22,515	22,143	20,500	24,382
Staff expenses	1,245	1,402	1,572	1,572	1,808
Selling, admin and other expenses	1,021	1,124	1,058	1,058	1,217
EBITDA	2,127	2,495	2,405	2,178	2,957
Depreciation	687	774	825	841	885
Operating profit	1,441	1,721	1,580	1,338	2,072
Other income	182	195	201	202	243
EBIT	1,623	1,916	1,782	1,540	2,315
Interest	322	374	343	313	313
Exceptional items	-	-	-	-	1
Profit before tax	1,301	1,542	1,438	1,227	2,001
Tax	287	333	159	196	320
Profit share in JV & asso.	224	251	252	201	302
PAT	1,238	1,453	1,432	1,232	1,983
EO Items	-	-	-	-	-
Net Profit	1,238	1,453	1,432	1,232	1,983
Share O/s mn	76.6	76.7	76.9	76.9	76.9
EPS Rs	16.2	19.0	18.6	16.0	25.8

Cash Flow Statement

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
PBT	1,525	1,786	1,591	1,227	2,001
Non-cash adjustments	1,005	1,141	1,231	1,154	1,198
Chg in working capital	(342)	(719)	117	127	(712)
Tax & Interest Paid	(368)	(342)	(410)	(196)	(320)
Cashflow from oper.	1,801	1,830	2,523	2,312	2,167
Capital expenditure	(1,511)	(1,259)	(1,321)	(1,000)	(1,500)
Chg in investments	(8)	56	(14)	-	-
Other invest. cashflow	(27)	(373)	(113)	-	-
Cashflow from invest	(1,546)	(1,576)	(1,448)	(1,000)	(1,500)
Issue of equity	-	12	24	-	-
Issue/repay debt					
Interest Paid	(323)	(377)	(343)	(313)	(313)
Inc./(Dec.) Loan Funds	184	307	(517)	-	-
Dividends paid	(163)	(182)	(201)	(214)	(214)
Other finan.cashflow	-	-	67	-	-
Cashflow from finan.	(303)	(241)	(971)	(527)	(527)
Chg cash & cash eq	(48)	13	104	785	140
Open cash & cash eq	190	142	155	259	1,044
Clsq cash & cash eq	142	155	259	1,044	1,184
Free cashflow to firm	291	571	1,202	1,312	667

Key Ratios

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
PER SHARE					
EPS Rs	16.2	19.0	18.6	16.0	25.8
CEPS Rs	25.1	29.1	29.4	27.0	37.3
Book Value Rs	99.4	116.4	133.2	146.5	169.5
VALUATION					
EV / Net Sales	0.8	0.7	0.7	0.7	0.6
EV / EBITDA	9.2	8.0	8.0	8.5	6.2
P / E Ratio	12.8	10.9	11.1	12.9	8.0
P / BV Ratio	2.1	1.8	1.6	1.4	1.2
GROWTH YOY%					
Sales Growth	20.8	17.4	-1.3	-6.9	20.0
EBITDA Growth	32.4	17.3	-3.6	-9.4	35.7
Net Profit Growth	52.4	17.3	-1.4	-14.0	61.0
Gross Fixed Asset Growth	9.8	15.2	7.7	6.8	9.6
PROFITABILITY					
Gross Profit/ Net sales (%)					
EBITDA / Net Sales (%)	9.1	9.1	8.9	8.6	9.7
EBIT / Net sales (%)	6.9	7.0	6.6	6.1	7.6
NPM / Total income (%)	5.3	5.3	5.3	4.9	6.5
ROE (%)	17.6	17.6	14.9	11.5	16.3
ROCE (%)	14.8	15.6	13.2	10.7	14.6
Tax / PBT %	22.0	21.6	11.1	16.0	16.0
TURNOVER					
Net Working Cycle					
Debtors Velocity (Days)	66.1	68.3	65.4	68.0	65.0
Inventory (Days)	0.6	0.9	1.1	1.0	1.0
Creditors Velocity (Days)					
Current Ratio	3.2	2.9	3.0	3.4	3.4
Quick Ratio	3.2	2.9	3.0	3.4	3.3
LIQUIDITY					
Gross Asset Ratio	2.1	2.2	1.9	1.7	1.9
Total Asset Ratio	2.1	2.2	2.0	1.7	1.9
Net Debt-Equity Ratio	0.5	0.4	0.3	0.2	0.2
Interest Coverage	4.5	4.6	4.6	4.3	6.6
PAYOUT					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	106.7	119.0	131.0	138.9	138.9
Yield %	1.0	1.1	1.3	1.3	1.3

Source: Company, AMSEC Research;

Balance Sheet

Y/E Mar	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS :					
Share Capital	153	153	154	154	154
Reserves	7,465	8,766	10,085	11,103	12,873
T. Shareholders Funds	7,618	8,920	10,239	11,257	13,027
Minority interest	47	52	57	57	57
Non-Current Liab.					
Long term borrowings	3,953	4,142	3,686	3,686	3,686
Lease Liability	-	-	35	35	35
Deferred tax liability	445	390	302	302	302
Current Liab. & Prov.	1,915	2,656	2,515	2,345	2,778
Total Equity & Liab.	13,977	16,160	16,833	17,681	19,884
APPLICATION OF FUNDS :					
Non Current Assets					
Fixed Assets	6,258	7,268	7,483	7,642	8,257
Capital work in progress	563	40	216	216	216
Right to use	-	-	234	234	234
Goodwill	-	-	-	-	-
Noncurrent investment	1,044	1,168	1,354	1,555	1,857
Current Assets					
Current investment					
Inventories	33	53	66	56	67
Sundry debtors	4,249	5,151	4,873	4,715	5,407
Cash and bank	142	155	259	1,044	1,184
Short loans & advances	1,689	2,324	2,349	2,219	2,662
Others current assets	-	-	-	-	-
Total Assets	13,977	16,160	16,833	17,681	19,884
Net working capital	4,055	4,872	4,772	4,645	5,358
Total Gross Debt	3,953	4,142	3,686	3,686	3,686
Total Net debt	3,811	3,987	3,426	2,642	2,501
Total capital employed	12,062	13,504	14,318	15,336	17,106

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Hold/Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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