

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	705
12 month price target (INR)	875
Market cap (INR bn/USD bn)	55/0.7
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

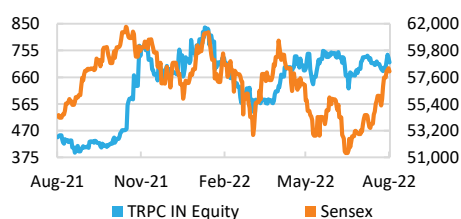
	Above	In line	Below
Profit		•	
Margins		•	
Revenue Growth		•	
Overall		•	

FINANCIALS

(INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Revenue	28,024	32,567	36,775	41,729
EBITDA	2,612	4,087	4,497	5,103
Adjusted profit	1,586	2,928	3,470	4,047
Diluted EPS (INR)	20.1	37.1	44.0	51.3
EPS growth (%)	1.5	84.6	18.5	16.6
RoAE (%)	13.7	22.5	22.2	21.7
P/E (x)	35.1	19.0	16.0	13.7
EV/EBITDA (x)	0.8	0.1	(0.4)	(1.1)
Dividend yield (%)	0.3	0.6	0.7	0.8

PRICE PERFORMANCE



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Video

All-time high revenue; margins modest

Transport Corporation of India (TCI) posted Q1FY23 results broadly in line with expectations. Margins dipped on account of: i) higher fuel cost and the lag in its pass-through; and ii) shift back to a higher FTL mix. Nonetheless, these two factors are temporary and, hence, margins would recover Q2 onwards.

Over the past five years, TCI's strategy of pivoting towards LTL (from FTL) has paid off well. Going ahead, we reckon an even higher LTL mix and recovery in the supply chain business should largely offset any margin headwinds from seaways. At one-year forward PE of 15x, TCI provides valuation comfort; maintain 'BUY' with unchanged TP of INR875, implying 20x FY23E.

Performance broadly in line

TCI posted a decent Q1FY23, broadly in line with our estimates. Margins contracted sequentially led by higher fuel cost; however that along expected lines. Standalone revenue shot up 32% YoY (1% QoQ). While overall revenue growth was strong, we saw margin contraction across segments. Blended EBITDA margins contracted ~190bp and came in at 12.3% versus 14.2% QoQ.

Business mix change to provide re-rating impetus

Our investment rationale for TCI is based on its underlying business mix improving over the next three–four years. The company is targeting a higher-margin LTL mix of 40% in the freight division. The supply chain division is part of the fast-growing 3PL category, and is expected to log a 15%-plus CAGR over the next five–seven years.

TCI also plans to add capacity in its seaways division (now pushed to FY23E), which should aid margin expansion and RoCE over medium term. However, a greater-than-expected drop in the seaways division's earnings could be a dampener for FY23E. That said, TCI's focus on establishing multi-modal capabilities would reflect in its growth over the next four–five years.

Outlook and valuation: Attractive prospects, retain "BUY"

Despite a strong rally, the stock, at one-year forward PE of 15x, provides valuation comfort. TCI has been one of the better performers in the Indian logistics sector and has thus seen a re-ratings over the past two years. We argue there's more value though and hence retain 'BUY/SO' with an unchanged TP of INR875 (20x FY23E).

Financials

Year to March	Q3FY22	Q4FY22	% Change	Q2FY22	% Change
Net Revenue	7,593	7,979	(4.8)	7,365	3.1
EBITDA	1,069	1,136	(5.9)	988	8.1
Adjusted Profit	776	731	6.1	684	13.5
Diluted EPS (INR)	10.1	9.5	6.1	8.9	13.5

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Total operating income	28,024	32,567	36,775	41,729
Cost of Goods Sold	22,972	25,766	29,149	33,079
Employee costs	1,455	1,700	1,849	2,095
Other expenses	984	1,013	1,280	1,451
EBITDA	2,612	4,087	4,497	5,103
Depreciation	928	1,130	1,141	1,270
Less: Interest expense	267	128	93	114
Add: Other income	255	199	344	511
Profit before tax	1,672	3,028	3,607	4,231
Prov for tax	238	377	441	518
Less: Other adjustment	71	277	304	335
Reported profit	1,504	2,928	3,470	4,047
Less: Excp.item (net)	82	0	0	0
Adjusted profit	1,586	2,928	3,470	4,047
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	20	37	44	51
DPS (INR)	2.3	4.1	4.7	5.5
Tax rate (%)	14.3	12.4	12.2	12.3

Important Ratios (%)

Year to March	FY21A	FY22A	FY23E	FY24E
EBITDA margin (%)	9.3	12.6	12.2	12.2
PBT growth (% YoY)	16.2	81.1	19.1	17.3
Net profit margin (%)	5.7	9.0	9.4	9.7
Revenue growth (% YoY)	3.1	16.2	12.9	13.5
EBITDA growth (% YoY)	8.6	56.5	10.0	13.5
Asset turnover (X)	1.9	2.1	2.1	2.1
Adj. profit growth (%)	3.6	84.6	18.5	16.6
EBIT margin (%)	6.0	9.1	9.1	9.2

Assumptions (%)

Year to March	FY21A	FY22A	FY23E	FY24E
GDP (YoY %)	(6.0)	9.0	7.0	6.5
Repo rate (%)	3.5	4.0	4.3	5.3
USD/INR (average)	75.0	76.0	77.0	75.0
Freight margin (%)	4.1	4.5	4.7	4.7
SCM margin (%)	10.7	10.7	11.5	11.8
Real. per DWT (INR)	1,07,635	90,000	90,000	0
Freight div. (% YoY)	(7.8)	19.2	9.9	0
SCM growth(% YoY)	1.1	7.2	18.0	0
Seaways (% YoY)	7.2	44.4	7.5	0

Valuation Metrics

Year to March	FY21A	FY22A	FY23E	FY24E
Diluted P/E (x)	35.1	19.0	16.0	13.7
Price/BV (x)	4.8	3.9	3.3	2.7
EV/EBITDA (x)	0.8	0.1	(0.4)	(1.1)
Dividend yield (%)	0.3	0.6	0.7	0.8

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Share capital	154	155	155	155
Reserves	11,543	14,148	16,872	20,068
Shareholders funds	11,697	14,303	17,027	20,222
Minority interest	86	274	274	274
Borrowings	2,555	962	1,173	1,006
Trade payables	759	851	911	1,035
Other liab & prov	2,272	1,586	1,162	1,162
Total liabilities	17,388	18,041	20,565	23,718
Net block	8,015	7,983	7,041	5,914
Intangible assets	31	30	6	6
Capital WIP	52	73	73	73
Total fixed assets	8,099	8,087	7,120	5,993
Non current inv	1,500	1,780	1,780	1,780
Cash/cash equivalent	395	745	3,121	6,578
Sundry debtors	5,110	5,083	6,073	6,890
Loans & advances	124	13	13	13
Other assets	1,608	2,166	2,127	2,132
Total assets	17,388	18,041	20,565	23,718

Free Cash Flow (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Reported profit	1,504	2,928	3,470	4,047
Add: Depreciation	928	1,130	1,141	1,270
Interest (net of tax)	179	86	62	77
Others	255	(302)	(618)	(808)
Changes in WC	181	(163)	(1,935)	(699)
Operating cash flow	3,047	3,680	2,121	3,886
Less: Capex	(1,241)	(707)	(174)	(142)
Free cash flow	1,807	2,973	1,947	3,744

Key Ratios

Year to March	FY21A	FY22A	FY23E	FY24E
RoE (%)	13.7	22.5	22.2	21.7
RoCE (%)	13.7	21.1	21.8	21.7
Receivable days	65	57	55	57
Payable days	9	9	9	9
cash conversion cycle	57	49	47	49
Working cap (% sales)	14.6	15.0	17.4	17.0
Gross debt/equity (x)	0.2	0.1	0.1	0
Net debt/equity (x)	0.2	0	(0.1)	(0.3)
Interest coverage (x)	6.3	23.0	36.0	33.5

Valuation Drivers

Year to March	FY21A	FY22A	FY23E	FY24E
EPS growth (%)	1.5	84.6	18.5	16.6
RoE (%)	13.7	22.5	22.2	21.7
EBITDA growth (%)	8.6	56.5	10.0	13.5
Payout ratio (%)	11.9	11.0	10.6	10.6

TRANSPORT CORPORATION

Exhibit 1: Quarterly snapshot (INR mn)

INR mn	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %	FY22	FY23E	FY24E
Revenues	8,072	6,108	32.2	7,979	1.2	29,046	32,726	37,072
Operating expenses	6,374	4,835	31.8	6,144	3.7	22,552	25,453	28,829
Employee Benefit Expenses	453	391	15.8	422	7.4	1,638	1,777	2,013
Others	254	171	48.4	277	(8.4)	952	1,209	1,369
Total expenditure	7,080	5,397	31.2	6,843	3.5	25,141	28,439	32,211
EBITDA	992	711	39.5	1,136	(12.7)	3,904	4,287	4,861
Depreciation	278	234	19.2	360	(22.6)	1,076	1,086	1,215
EBIT	713	477	49.5	777	(8.2)	2,829	3,200	3,646
Interest	19	41	(54.2)	19	(1.6)	109	80	99
Other income	159	107	49.1	78	105.2	311	344	511
Add: Exceptional items	0	0	NA	0	N/A	0	0	0
Profit Before Tax	854	543	57.2	835	2.2	3,031	3,464	4,059
Less: Provision for Tax	88	59	47.5	104	(16.1)	357	398	467
Reported Profit	766	484	58.4	731	4.8	2,674	3,066	3,592
Adjusted Profit	766	484	58.4	731	4.8	2,674	3,066	3,592
Adjusted Diluted EPS	10.0	6.3	58.4	9.5	4.8	34.8	39.9	46.8
P/E (x)						19.0	16.0	13.7
As % of net revenues								
Operating expenses	79.0	79.2		77.0		77.6	77.8	77.8
Staff expenses	5.6	6.4		5.3		5.6	5.4	5.4
Other expenses	3.1	2.8		3.5		3.3	3.7	3.7
EBITDA	12.3	11.6		14.2		13.4	13.1	13.1
Net profit	9.5	7.9		9.2		9.2	9.4	9.7

Source: Company, Edelweiss Research

Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 12 million square feet of warehousing space

Investment Theme

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% 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.

Key Risks

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. Any downfall in trucking freight rates, particularly due to aggressive pricing by PE backed transporters can impact the profitability of TCI adversely

Additional Data

Management

CEO	Vineet Agarwal (MD)
CFO	Ashish Tiwari
COO	
Other	
Auditor	Brahmayya & Co.

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	7.58	Dimensional Fun	0.79
TATA AMC	0.87	Blackrock	0.07
LIC MF	0.85	Acadian Asset M	0.03
IDFC MF	0.83	American Centur	0.02
Sundaram AMC	0.81	FMR	0.01

*Latest public data

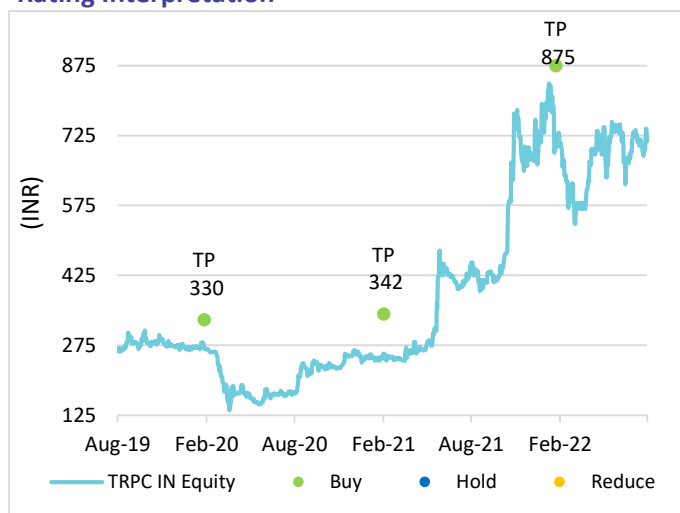
Recent Company Research

Date	Title	Price	Reco
30-May-22	A steady end to FY22; outlook robust; <i>Result Update</i>	745	Buy
27-Jan-22	In a new zone; <i>Result Update</i>	730	Buy
29-Oct-21	Entering a new orbit; <i>Result Update</i>	629	Buy

Recent Sector Research

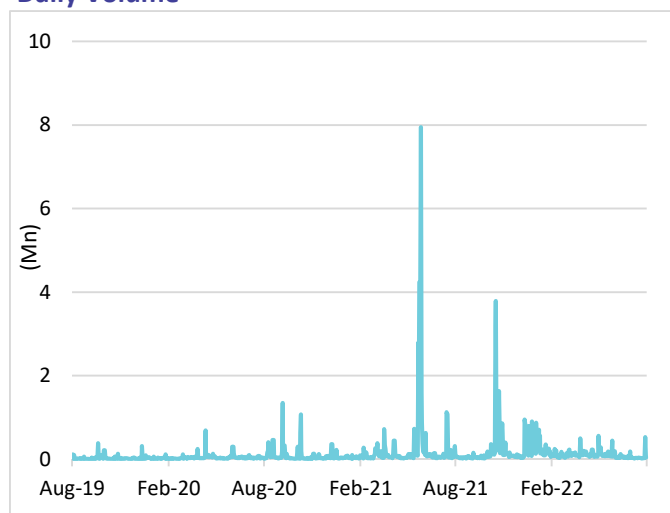
Date	Name of Co./Sector	Title
03-Aug-22	TCI Express	Challenging quarter; valuation still rich; <i>Result Update</i>
01-Aug-22	Mahindra Logistics	Chugging ahead; a lot baked in though; <i>Result Update</i>
28-Jul-22	Blue Dart Express	A hard fought quarter; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	199	53	18	272
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	244	39	5	288

*2 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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