Stock Update

Result Update

Powered by the Sharekhan 3R Research Philosophy

Transport Corporation of India Ltd

Growth potential intact despite near-term headwinds

Logistics	Sharekhan code: TCI		
Reco/View: Buy ↔	CMP: **Rs. 709**	Price Target: **Rs. 850** ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

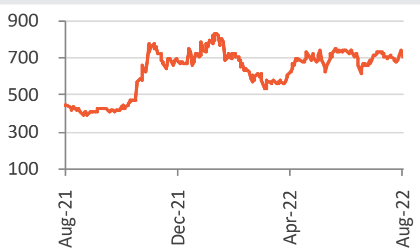
Company details

Market cap:	Rs. 5,494 cr
52-week high/low:	Rs. 858/388
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.6 cr

Shareholding (%)

Promoters	66.6
FII	3.1
DII	12.0
Others	18.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.5	-1.7	0.4	58.0
Relative to Sensex	-11.2	-6.3	-0.8	51.1

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on TCI Ltd with a revised price target of Rs. 850, lowering our valuation multiples to factor near-term near term macro headwinds affecting especially the MSME segment.
- TCI reported better than expected consolidated revenues for Q1FY2023 led by strong growth across its key verticals. However, OPM remained under pressure q-o-q across verticals.
- The management retained topline and bottom line growth guidance of 10-15% y-o-y for FY2023 factoring a slowdown towards the fag end of the fiscal year.
- Its capex plan of Rs. 300 crore remains unchanged although it is yet to zero in on a ship for acquisition.

Transport Corporation of India (TCI) reported better-than-expected consolidated revenues of Rs. 903 crore (up 29.7% y-o-y, up 0.6% q-o-q) during Q1FY2023 led by low base along with sustained demand momentum from Q4FY2022. All three key verticals viz. Seaways (revenues up 32.5%, driven by higher freight rates), SCM (up 33.5% y-o-y, led by auto sector demand revival) and Freight (up 30.8% y-o-y, although down 3.6% q-o-q led by MSME slowdown) fared well. However, consolidated OPM at 11.5% (down 177 bps q-o-q) was lower than our estimate of 12.9%. All three verticals viz. Seaways (rising input costs), freight (lower LTL mix) and SCM (inability to pass thru higher fuel costs in large accounts) felt sequential pressure on OPM. Overall, consolidated operating profit/net profit rose by 37%/66% y-o-y at Rs. 104 crore/Rs. 78 crore. The management retained its topline and bottom line growth guidance of 10-15% y-o-y for FY2023 conservatively factoring a bit of slowdown towards the fag end of the fiscal year. Its Capex plan of Rs. 300 crore remains unchanged although it is yet to zero in on a ship for acquisition.

Key positives

- Consolidated revenues rose 29.7% y-o-y led by strong growth across key verticals.
- Seaways continue to report strong performance with 32.5% y-o-y revenue growth and OPM of 42.8%.

Key negatives

- All three key verticals suffered operating margin pressure q-o-q led by varied reasons.
- Elevated ship prices continue to delay the purchase of a ship.

Management Commentary

- The management retained topline and bottom line growth of 10-15% y-o-y for FY2023 despite strong growth in Q1FY2023. The conservative guidance is assuming slowdown during Q4FY2023 led by macro headwinds.
- It maintained Rs. 300 crore capex plan for FY2023 although the same comprised a major expenditure related to ship acquisition of Rs. 130 crores (one ship plus container addition).
- Concor JV revenues grew by 8% y-o-y. Cold Chain grew by 28.7% y-o-y though on a small base. Trans-shipment saw 85% y-o-y growth.
- It has Rs. 44 crore debt while net borrowing remained nil.

Revision in estimates – We have fine-tuned our estimates for FY2023-FY2024.

Our Call

Valuation – Retain Buy with a revised price target of Rs. 850: TCI's multi-modal capabilities are expected to benefit it from the logistics sector's growth tailwinds led by GST, government thrust on schemes such as Atmanirbhar Bharat, PLI-led manufacturing push, and global supply chain re-alignments. The seaways division is expected to sustain strong performance led by increased freight rates although gradual normalization of OPM is expected. The addition of one more ship would be keenly awaited and provide further fillip to its seaways division. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP based target of Rs. 850 lowering our valuation multiples to factor in the near-term macro headwinds affecting especially the MSME segment.

Key Risks

A sustained weak macro-economic and auto industry environment can lead to a downward revision in net earnings.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	2,802.4	3,256.7	3,655.4	4,013.2
OPM (%)	9.3	12.6	12.3	11.9
Adjusted PAT	160.2	289.6	295.4	307.4
% YoY growth	5.2	80.8	2.0	4.1
Adjusted EPS (Rs.)	20.9	37.5	38.2	39.8
P/E (x)	34.0	18.9	18.5	17.8
P/B (x)	4.6	3.8	3.2	2.7
EV/EBITDA (x)	21.1	13.5	12.3	11.6
RoNW (%)	14.6	22.3	18.9	16.7
RoCE (%)	10.0	17.5	15.9	14.1

Source: Company; Sharekhan estimates

Seaways continue to report strong performance

Transport Corporation of India reported consolidated net revenues of Rs. 903 crores (up 29.7% y-o-y, up 0.6% q-o-q) which was 6% ahead of our estimate. The revenues from freight was up 27% y-o-y (-3.4% q-o-q) at Rs. 463 crore, Supply chain management revenues were up 33.6% y-o-y (+10.1% q-o-q) at Rs. 302 crore and Seaways revenues were up 32.6% y-o-y (-5.1% q-o-q) at Rs. 152 crore. Consolidated OPM at 11.5% (+64bps y-o-y, -177bps q-o-q) was lower than our estimate of 12.9%. All three verticals viz. Seaways (rising input costs), freight (lower LTL mix) and SCM (inability to pass thru higher fuel costs in large accounts) felt sequential pressure on OPM. OPM expansion y-o-y led to consolidated profit growth of 37.4% y-o-y (down 12.8% q-o-q) at Rs. 104 crore, which was 6% lower than our estimate. Strong operational performance led to 66% y-o-y rise (down 9% q-o-q) in consolidated net profit at Rs. 78 crore, which was 12% higher than our estimate. The beat on net profit was on account of lower effective tax rate (11.9%) and higher income from JVs (Rs. 10 crores versus Rs. 3 crores in Q1FY2022).

Key Conference Call takeaways -

- **Q1FY23 performance:** The company saw strong growth during Q1FY2023 on account of the low base of last year along with healthy momentum was witnessed in Q4FY2022 carried on in Q1FY2023.
- **Guidance:** The management retained Topline and bottomline growth of 10-15% y-o-y for FY2023 despite strong growth in Q1FY2023. The conservative guidance is assuming a little slowdown during Q4FY2023 led by macro headwinds.
- **Capex:** It maintained Rs. 300 crore capex plan for FY2023 although the same comprised a major expenditure related to ship acquisition of Rs. 130 crores (one ship plus container additions).
- **Freight:** The freight revenues grew by 31% y-o-y led by a lower base of last year and improving economic activities. However, the EBITDA margin at 3.8% remained under pressure owing to lower contribution from the LTL segment as the MSME segment faced slowdown on account of higher working capital requirements and rising interest rates. However, from July, it has seen LTL cargo coming back.
- **SCM:** SCM revenues grew by 33.5% y-o-y led by a revival in auto sector demand. However, OPM at 9.1% remained under pressure on account of seasonality and the inability to timely pass through a diesel price increase in large contracts.
- **Seaways:** Seaways' revenues grew by 32.5% y-o-y led by higher freight rates. Although the international freights witnessed softening, the domestic freight rates remained firm. Out of the three ships' dry docking, one is completed, the second is expected to complete in a few days and the third one before Q2FY2023 end. Consequently, it would have finished dry docking three ships in H1FY2023 itself making it fully available for H2FY2023. The government has allowed imports of pulses from Myanmar till March 31, 2023. The segment is expected to see topline and bottomline growth of 10-15% y-o-y for FY2023. The margins are likely to soften due to an increase in input costs.
- **Concor JV:** The business grew by 8% y-o-y.
- **Cold Chain:** The segment grew by 28.7% y-o-y though on small base.
- **Trans-shipment:** The segment saw 85% y-o-y growth.
- **Debt and cash:** It has Rs. 44 crore debt while net borrowing remained nil.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	y-o-y %	Q4FY22	q-o-q %
Net sales	**902.9**	**696.1**	**29.7%**	**897.7**	**0.6%**
Other income	5.3	4.1	30.4%	7.6	-29.9%
Total income	908.2	700.2	29.7%	905.3	0.3%
Total expenses	798.9	620.4	28.8%	778.4	2.6%
Operating profit	**104.1**	**75.8**	**37.4%**	**119.3**	**-12.8%**
Depreciation	28.9	24.7	16.8%	37.1	-22.2%
Interest	2.3	4.7	-51.0%	2.2	3.1%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**78.2**	**50.4**	**55.1%**	**87.5**	**-10.7%**
Taxes	9.3	6.4	46.4%	10.9	-13.9%
PAT	68.8	44.0	56.4%	76.7	-10.2%
Minority Interest/JV income	-8.9	-2.9	211.5%	-8.7	2.1%
Adjusted PAT	**77.7**	**46.9**	**65.9%**	**85.4**	**-9.0%**
EPS (Rs.)	10.1	6.1	65.9%	11.0	-9.0%
Margins					
OPM (%)	11.5%	10.9%	64 bps	13.3%	-177 bps
NPM (%)	8.6%	6.7%	188 bps	9.5%	-90 bps
Tax rate (%)	11.9%	12.7%	-71 bps	12.4%	-45 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth outlook led by changing consumer preferences & macro pick-up

The logistics industry had been one of the key sectors which showed a strong revival post-COVID-19 pandemic that affected the overall trade environment both domestically and globally. Domestic indicators like e-way bill generations, FASTag collections, Indian Rail volume, domestic ports volume and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business led by user industries preference towards credible supply chain management in wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen a faster improvement in operations led by segments like e-Commerce, pharma and FMCG. Hence, we upgrade our view on the logistics sector to Positive from Neutral.

■ Company outlook - Strong headroom for long-term growth

TCI has a strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics along with the supply chain business with over six decades of experience gives it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

■ Valuation - Retain Buy with a revised price target of Rs. 850

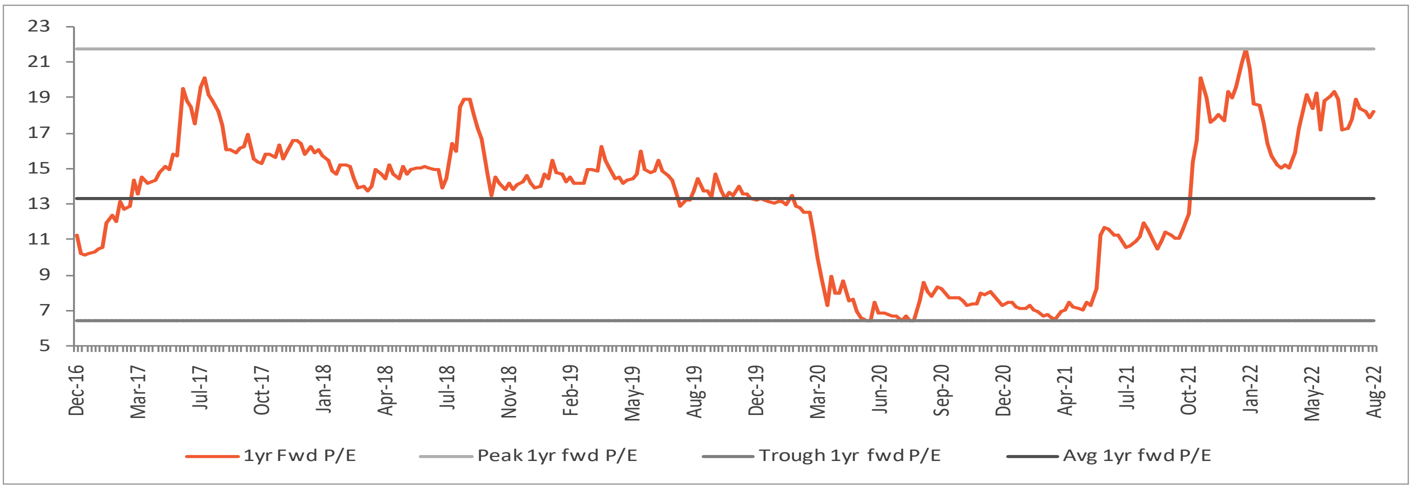
TCI's multi-modal capabilities is expected to benefit from the logistics sector's growth tailwinds led by GST, government thrust on schemes such as Atmanirbhar Bharat, PLI-led manufacturing push, and global supply chain re-alignments. The seaways division is expected to sustain strong performance led by increased freight rates although gradual normalization of OPM is expected. The addition of one more ship would be keenly awaited and provide further fillip to its seaways division. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP-based target of Rs. 850 lowering our valuation multiples to factor in the near-term macro headwinds affecting especially the MSME segment.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	13x EV/EBITDA on FY2024E	1160	151
SCM	14x EV/EBITDA on FY2024E	2225	290
Seaways	12x EV/EBITDA on FY2024E	2778	362
Less: Net Debt		-248	-32
Value of core verticals		6411	834
Transystem JV	1x P/B	117	15
Price target			**850**

Source: Company, Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TCI	18.5	17.8	12.3	11.6	3.2	2.7	18.9	16.7
TCI Express	41.2	34.1	29.7	24.5	10.7	8.4	27.7	27.9
Mahindra Logistics	65.1	39.0	12.4	10.0	4.8	4.3	8.6	12.8

Source: Company, Sharekhan Research

About company

TCI is India's leading integrated supply chain and logistics solutions provider with over six decades of experience. The company has an extensive pan-India network with a presence across major districts. TCI has 12 mn. sq. ft. of warehousing space. The company has three broad business verticals. TCI Freight: It transports cargo on FTL/ LTL/small packages and consignments/over-dimensional cargo.TCI Supply Chain Solutions: The core service offerings are supply chain consultancy, inbound logistics, warehousing/distribution centre management and outbound logistics. TCI Seaways: TCI Seaways owns six ships and caters to coastal cargo requirements for transporting containers and bulk cargo.

Investment theme

TCI has strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics along with supply chain business with over six decades of experience gives it a distinctive advantage to capture the high growth potential in the logistics sector. TCI is expected to benefit from the logistics sector growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

Key Risks

- Slowdown in the macroeconomy leading to weak logistics industry outlook.
- High concentration on the automotive industry.
- Highly competitive industry.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman & Managing Director
Mr. Vineet Agarwal	Managing Director
Mr. Ashish Tiwari	Group Chief Financial Officer
Ms. Archana Pandey	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC AMC	7.58
2	TCI Trading	6.42
3	Bang Nirmal Mishrilal	1.12
4	Agarwal Dharam Pal	1.07
5	Tata AMC	0.87
6	LIC MF AMC	0.85
7	IDFC AMC	0.83
8	Sundaram AMC	0.81
9	Dimensional Fund	0.79
10	Blackrock Inc	0.07

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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