TRANSPORT CORPORATION OF INDIA

Rating: ◀▶ | Target price: ▲ | EPS: ▲

CMP	1Y Target	Rating
Rs. 289	Rs. 340	BUY

SPARK CAPITAL

ONE YEAR OUTLOOK

BUSINESS & EARNINGS ◀▶

- Maintain our positive stance on TRPC as it will benefit from 1) GST led emphasis on logistics efficiency driving 3PL (TCI Supply Chain (SCS)), 2) thrust in demand for coastal shipping, 3) shifting focus towards multi-modal transportation providing cost effective logistic solutions and 4) entrenched presence across logistics value chain. However, expect headwind from macroeconomic slowdown (esp. automotive sector).
- Despite automotive slowdown witnessed in 1H20 (auto constitutes ~80% of SCS revenue), SCS segment reported revenue/EBITDA decline of 2%/5%^ YoY due to its diversified presence across auto subsectors and incremental contribution from new non-automotive contracts. Expect increasing penetration of services and scaling up of new contracts to drive revenue and EBITDA CAGR of 9% each through FY19-22E.
- Expect freight division to benefit from 1)higher LTL contribution (70bps margin expansion of through FY19-22) 2) shift of market share from unorganised sector and 3) growth in multi-modal logistics. The segment reported revenue and EBITDA growth of 9% and 12% YoY, in 1H, due to higher LTL mix. Expect revenue/ EBITDA CAGR of 9%/14% (FY19-22E).
- Seaways' revenue growth moderated to 9% YoY in 1H as movement of building materials on west-south route decelerated. Expect deployment of seventh ship (31% of total DWT) from 3Q and addition of new ship every 12-15 months to drive revenue/EBITDA CAGR of 17%/16% (FY19-22)

VALUATION MULTIPLES ◀▶

- Valuing the stock based on SOTP (page 2) to arrive at TP of Rs.340 (Sep-21). Expect healthy operating performance to generate avg RoCE of 13% through FY20-22. Expect revised capex spend (~Rs. 2.8bn through FY20-21 vs earlier est of Rs. 4.2bn), towards new ship, addition of truck fleet, upgrading IT infrastructure and warehouse expansion, to constrain FCF over the period.

FINANCIAL SUMMARY

Year	Revenue (Rs. mn)	EBITDA (%)	PAT (Rs.mn)	EPS (Rs.)	P/E (x)	EV/ EBITDA (x)
FY19	25,583	9.5%	1,276	16.7	17.3	10.8
FY20E	27,003	9.4%	1,344	17.6	17.9	10.4
FY21E	30,709	10.1%	1,756	22.9	12.6	8.4

THREE YEAR OUTLOOK

BUSINESS & EARNINGS ◀▶

- Expect TRPC to benefit from 1) shift of volumes from unorganised sector to organised, and 2) Traction in Multi-modal logistics (TRPC is one of the few players with presence across value chain) drive revenue and EBITDA CAGR of 10% and 15%, respectively, through FY19-23.
- TRPC's established infrastructure, long standing customer relationships and experienced management team (vintage of ~six decades) is expected to aid its position as being a preferred 3PL partner. Furthermore, presence across multimodal logistics value chain (JV with Concor for rail transportation and fleet of ships for waterway transportation) allows TRPC to provide efficient end-to-end logistics solutions.
- Robust demand for multimodal logistics is expected to drive coastal shipping volume growth benefiting Seaways division. Expect addition of new ship every 12-15 months to cater to incremental demand. However, increasing competition may dilute realization and profitability (CONCOR started coastal shipping operations in FY20 and other logistics service providers evaluate opportunities)
- Expect freight segment to benefit from higher contribution from LTL services. However, disruption from tech enabled start-ups may be a tough competitor in FTL segment. Expect freight segment's share of overall revenues to reduce from 47% in FY19 to ~43% by FY23E.

VALUATION MULTIPLES ◀▶

- Improving operating cashflows combined with reducing debt is expected to drive RoCE (12% in FY19 to ~16% in FY23E). Based on FY23E estimates, we see a potential upside of 53% (incl. dividends).

KEY ESTIMATES REVISION

	FY20E			FY21E		
	Old	New	Change	Old	New	Change
Sales	26,918	27,003	0%	31,289	30,709	-2%
EBITDA %	9.5%	9.4%	-10 bps	10.4%	10.1%	-30 bps
PAT	1,299	1,344	3%	1,704	1,756	3%
EPS	17.0	17.6	3%	22.3	22.9	3%
Implied Target P/E	Before Results:		14x	After Results:		14x

All figures in Rs. mn

OUTLOOK REVIEW 2QFY20
NOVEMBER 7, 2019

Industry	LOGISTICS
CMP	Rs. 289
Target Price	Rs. 340
Key Stock Data	
Bloomberg	TRPC IN
Shares o/s	76mn
Market Cap	Rs. 22bn
52-wk High-Low	Rs. 330-250
3m ADV	Rs. 9mn
Index	BSE500

	Mar'19	Jun'19	Sep'19
Promoters	66.9	66.9	66.8
Institutions	12.7	14.4	14.3
Public	20.4	18.7	18.9
Pledge			

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Quarterly Financial Statement

Supply Chain segment reported revenues of Rs. 2.41bn, 5.4% YoY decline. EBIT margins at 6.6%, contracted 37bps sequentially

Seaways segment revenues at Rs. 854mn, grew 8.3% YoY. EBIT margins at 17%, contracted 280bps sequentially

The company reported an exceptional loss of Rs. 98.8mn related to impairment of wind power plant

STANDALONE FINANCIAL RESULTS

Rs. mn\Period	2QFY20	2QFY19	yoy Growth	1QFY20	qoq Growth	1HFY19	1HFY20	yoy Growth
Revenue	**6,282**	**6,203**	**1.3%**	**6,121**	**2.6%**	**12,018**	**12,403**	**3.2%**
Operating expense	5,062	5,066	-0.1%	4,942	2.4%	9,781	10,004	2.3%
Emp. cost	374	347	7.8%	372	0.3%	680	746	9.7%
Other expenses	281	259	8.7%	245	15.0%	513	526	2.5%
Total Expenditure	5,717	5,672	0.8%	5,559	2.8%	10,974	11,276	2.8%
EBITDA	**566**	**531**	**6.5%**	**562**	**0.6%**	**1,044**	**1,128**	**8.0%**
Margin %	9.0%	8.6%	44 bps	9.2%	-18 bps	8.7%	9.1%	40 bps
D&A	190	191	-0.4%	186	2.0%	359	376	4.9%
EBIT	**376**	**341**	**10.4%**	**376**	**0.0%**	**686**	**752**	**9.7%**
Other income	84	81	2.8%	75	10.9%	164	159	-2.9%
Net Interest exp (inc)	77	93	-17.2%	82	-6.6%	163	159	-2.4%
PBT	**284**	**329**	**-13.7%**	**369**	**-23.1%**	**686**	**751**	**9.5%**
Tax provision	-49	70	-170.1%	72	-168.7%	145	22	-84.6%
Tax rate %	-17.3%	21.3%	**-181.3%**	19.4%	-3670 bps	21.2%	3.0%	-1820 bps
PAT (Reported)	**333**	**259**	**28.6%**	**297**	**11.9%**	**541**	**622**	**15.1%**
PAT (Adjusted)	**325**	**259**	**25.6%**	**297**	**9.3%**	**541**	**729**	**34.8%**
Adjusted PAT Margin %	5.2%	4.2%	100 bps	4.9%	31 bps	4.5%	5.9%	138 bps
Shares Outstanding	77	77		77		77	77	
EPS (Reported)	**4.3**	**3.4**	**28.6%**	**3.9**	**11.9%**	**7.1**	**8.1**	**15.1%**
EPS (Adjusted)	**4.2**	**3.4**	**25.6%**	**3.9**	**9.3%**	**7.1**	**9.5**	**34.8%**

SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		3,256	5x FY21e EV/EBITDA
TCI SCS		12,925	10x FY21e EV/EBITDA
TCI Seaways		11,408	7.5x FY21e EV/EBITDA
Others		106	2x FY21e EV/EBITDA
Net Cash(Net Debt)		-3,642	
Value from TCI	**314**	**24,052**	**92.6% of Total**
Value from JV	**25**	**1,915**	**7.4% of Total; Adjusted for hold co discount**
No. Of Shares O/s (mn)		**77**	
Target Price	**340**	**25,968**	

Financial Summary

Abridged Financial Statement									
Rs. mn	FY14*	FY15*	FY16*	FY17	FY18	FY19	FY20E	FY21E	FY22E
Profit & Loss									
Revenue	**20,273**	**21,967**	**22,578**	**18,042**	**21,778**	**25,583**	**27,003**	**30,709**	**34,196**
Gross profit	3,861	4,320	4,742	3,502	4,288	4,888	5,337	6,142	6,908
EBITDA	**1,493**	**1,704**	**1,823**	**1,575**	**2,083**	**2,442**	**2,545**	**3,093**	**3,553**
Depreciation	424	495	539	578	673	752	887	922	1,022
EBIT	1,069	1,209	1,284	996	1,410	1,690	1,658	2,171	2,531
Other Income	57	124	122	177	245	269	281	293	304
Interest expense	297	319	282	286	299	356	339	348	304
Exceptional items	0	2	0	0	40	0	99	0	0
PBT	829	1,012	1,124	888	1,316	1,603	1,500	2,116	2,531
Reported PAT (after minority interest)	620	759	851	703	1,037	1,276	1,245	1,756	2,101
Adj PAT	**620**	**758**	**850**	**703**	**1,037**	**1,276**	**1,238**	**1,756**	**2,101**
EPS (Rs.)	**8.5**	**10.0**	**11.2**	**9.2**	**13.5**	**16.7**	**16.2**	**22.9**	**27.4**
Balance Sheet									
Net Worth	4,400	5,612	4,917	5,809	6,769	8,370	9,441	11,032	12,967
Deferred Tax	327	285	320	392	443	390	289	289	289
Total debt	3,045	3,068	3,394	4,066	4,238	4,496	4,554	4,154	3,454
Other liabilities and provisions	671	941	819	318	535	1,290	1,359	1,537	1,706
Total Networth and liabilities	8,443	9,905	9,449	10,584	11,985	14,546	15,643	17,012	18,415
Gross Fixed assets	6,247	7,524	8,021	8,761	10,345	11,917	13,428	14,928	16,528
Net fixed assets	3,836	4,783	5,169	5,325	6,236	7,055	7,679	8,258	8,836
Capital work-in-progress	182	68	123	568	563	40	40	40	40
Goodwill	0	0	0	0	0	0	0	0	0
Investments	452	444	231	298	313	938	938	938	938
Cash and bank balances	173	165	124	184	130	122	232	180	143
Loans & advances and other assets	955	1,176	1,192	1,601	1,604	2,221	2,332	2,652	2,953
Net working capital	2,846	3,268	2,609	2,608	3,139	4,170	4,421	4,944	5,505
Total assets	**8,443**	**9,905**	**9,449**	**10,584**	**11,985**	**14,546**	**15,643**	**17,012**	**18,415**
Capital Employed	7,772	8,964	8,630	10,266	11,450	13,256	14,284	15,475	16,709
Invested Capital (CE - cash - CWIP)	7,417	8,731	8,383	9,514	10,757	13,094	14,012	15,254	16,526
Net debt	2,872	2,903	3,270	3,882	4,109	4,375	4,322	3,974	3,311
Cash Flows									
Cash flows from Operations (Pre-tax)	1,633	1,455	2,567	1,115	2,119	2,043	1,993	2,374	2,859
Cash flows from Operations (post-tax)	1,429	1,261	2,330	883	1,768	1,712	1,738	2,014	2,429
Capex	556	1,416	1,750	1,156	1,590	1,078	1,511	1,500	1,600
Free cashflows	872	-156	580	-273	177	634	226	514	829
Free cashflows (post interest costs)	576	-475	298	-560	-122	278	-113	166	525
Cash flows from Investing	-720	-1,471	-988	-1,174	-1,538	-1,481	-1,511	-1,500	-1,600
Cash flows from Financing	-702	203	-1,383	370	316	-255	-109	-566	-866
Total cash & liquid investments	173	165	124	184	130	122	232	180	143

**Includes financials of TCI XPS segment (demerged in FY17)*

SPARK CAPITAL

Financial Summary

Abridged Financial Statement	FY14*	FY15*	FY16*	FY17	FY18	FY19	FY20E	FY21E	FY22E
Key variables									
Freight Revenues (Rs. Mn)	7,797	8,156	8,400	9,223	10,311	12,096	13,133	14,446	15,457
Supply Chain Revenues (Rs. Mn)	5,423	6,129	6,249	7,374	9,126	10,189	10,224	11,451	13,168
Seaways Revenues (Rs. Mn)	1,137	1,220	1,407	1,639	2,564	3,593	3,887	5,053	5,811
Growth ratios									
Revenue	3.9%	8.4%	2.8%	12.9%	20.7%	17.5%	5.5%	13.7%	11.4%
EBITDA	3.1%	14.1%	7.0%	17.7%	32.3%	17.2%	4.2%	21.5%	14.9%
Adj PAT	19.6%	22.5%	12.0%	18.0%	47.6%	23.0%	-2.4%	41.0%	19.6%
Margin ratios									
Gross	19.0%	19.7%	21.0%	19.4%	19.7%	19.1%	19.8%	20.0%	20.2%
EBITDA	7.4%	7.8%	8.1%	8.7%	9.6%	9.5%	9.4%	10.1%	10.4%
Adj PAT	3.1%	3.4%	3.8%	3.9%	4.8%	5.0%	4.6%	5.7%	6.1%
Performance ratios									
Pre-tax OCF/EBITDA	109.3%	85.4%	140.8%	70.8%	101.7%	83.7%	78.3%	76.8%	80.5%
OCF/IC (%)	19.3%	14.4%	27.8%	9.3%	16.4%	13.1%	12.4%	13.2%	14.7%
RoE (%)	15.0%	15.1%	16.2%	13.1%	16.5%	16.9%	13.9%	17.2%	17.5%
RoCE (%)	11.0%	12.0%	12.1%	9.8%	12.0%	12.6%	11.7%	13.7%	14.6%
RoCE (Pre-tax)	14.7%	15.9%	16.0%	12.4%	15.2%	15.9%	14.1%	16.6%	17.6%
RoIC (Pre-tax)	14.5%	15.0%	15.0%	11.1%	13.9%	14.2%	12.2%	14.8%	15.9%
Fixed asset turnover (x)	3.3	3.2	2.9	2.2	2.3	2.3	2.1	2.2	2.2
Total asset turnover (x)	2.4	2.4	2.3	1.8	1.9	1.9	1.8	1.9	1.9
Financial stability ratios									
Net Debt to Equity (x)	0.7	0.5	0.7	0.7	0.6	0.5	0.5	0.4	0.3
Net Debt to EBITDA (x)	1.9	1.7	1.8	2.5	2.0	1.8	1.7	1.3	0.9
Interest cover (x)	4.8	4.0	8.3	3.1	5.9	4.8	5.1	5.8	8.0
Cash conversion days	51	54	42	53	53	59	60	59	59
Working capital days	56	58	48	79	71	73	73	72	72
Valuation metrics									
Fully Diluted Shares (mn)	72.9	75.7	76.1	76.1	76.6	76.6	76.6	76.6	76.6
Market cap (Rs.mn)					22,131				
P/E (x)	34.0	28.9	25.9	31.3	21.3	17.3	17.9	12.6	10.5
P/OCF(x)	15.5	17.6	9.5	25.1	12.5	12.9	12.7	11.0	9.1
EV (Rs.mn) (ex-CWIP)	24,821	24,965	25,277	25,445	25,676	26,466	26,413	26,105	25,442
EV/ EBITDA (x)	16.6	14.7	13.9	16.2	12.3	10.8	10.4	8.4	7.2
EV/ OCF(x)	17.4	19.8	10.8	28.8	14.5	15.5	15.2	13.0	10.5
FCF Yield					0.8%	2.9%	1.0%	2.3%	3.7%
Price to BV (x)	5.0	3.9	4.5	3.8	3.3	2.6	2.3	2.0	1.7
Dividend pay-out (%)	15.3%	14.8%	13.4%	12.0%	11.8%	10.8%	11.1%	7.8%	6.6%
Dividend yield (%)					0.6%	0.6%	0.6%	0.6%	0.6%

**Includes financials of TCI XPS segment (demerged in FY17); ^Adjusted*

SPARK CAPITAL

Crystal Ball Gazing

Over FY19-23, Revenue growth is driven by 1) shift from unorganised sector to organised, 2) logistics supply chain outsourcing to 3PL players, and 3) traction in multimodal logistics. EBITDA growth is expected to be driven by higher contribution from supply chain services(3PL) and increase in movement of freight by multimodal logistics.

Revenue CAGR of 10% from FY19 to FY23 driven by incremental demand for 3PL services and Seaways

	FY11-FY14	FY14-FY19	FY19-FY23E
Revenues CAGR	5%	12%	10%
Gross Margin	19%	20%	20%
EBITDA CAGR	3%	19%	14%
EBITDA margin	7.6%	8.7%	10.1%
EPS CAGR	6%	27%	20%
Total Asset Turnover (x)	2.5	2.1	1.9
Total WC days	56	66	72
Pre-tax OCF/EBITDA (%)	87%	100%	81%
Post Tax OCF as a % of IC	15%	16%	14%
Debt/EBITDA	2.1	2.5	1.2

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Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY19	FY19-FY23E
RoE (%)	15.2%	15.5%	16.8%
RoCE (%)	10.9%	11.6%	13.7%
RoIC (%)	15.6%	13.9%	15.0%
Average 1 yr fwd			
PE (x)	4.3	12.8	
EV/EBITDA (x)	4.4	9.1	
Peak 1 yr fwd			
PE (x)	6.8	19.2	
EV/EBITDA (x)	6.6	12.8	

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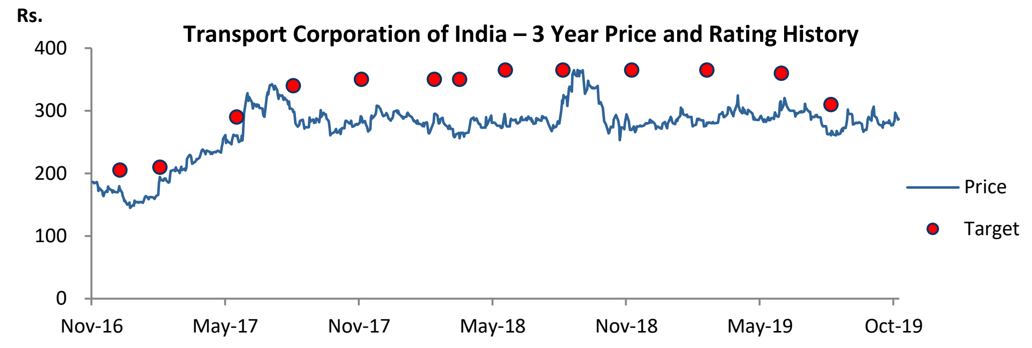
Healthy operating performance to sustain multiple

SOTP	FY23 EBITDA (Rs.mn)	EV/EBITA (x)	EV (Rs.mn)
TCI Freight	730	3.0	2,191
TCI SCS	1,521	10.0	15,209
TCI Seaways	2,115	7.5	15,865
Others	53	2.0	106
Net Debt (Rs.mn)			2,100
Mkt Cap (Rs.mn)			31,271
Standalone TP			**408**
JV (Transystem)			**28**
Target Price			**436**

Entry = Rs. 289 @ 13x FY21 EPS + Cumulative Dividends of Rs.7/share + PAT CAGR of ~20%, implied exit multiple of 14x on FY23E EPS = TOTAL RETURN OF 53%

Spark Recommendation History



Report Date	Price	Target	Reco.
02/Aug/19	260	310	Buy
29/May/19	315	360	Buy
15/Feb/19	279	365	Buy
06/Nov/18	270	365	Buy
06/Aug/18	317	365	Buy
18/May/18	293	365	Buy
19/Mar/18	265	350	Buy
12/Feb/18	282	350	Buy
06/Nov/17	295	350	Buy
04/Aug/17	300	340	Buy
19/May/17	258	290	Buy
06/Feb/17	183	210	Buy
14/Dec/16	176	205	Buy

Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon
Symbol Interpretation	
◄► No Change | ▼ Downgrade | ▲ Upgrade	

Disclosure of Interest Statement

Details of Financial Interest of Research Entity [Spark Capital Advisors (India) Private Limited] and its Associates	No
Details of Financial Interest of covering analyst/ and his relatives	No
Investment banking relationship with the company covered	No
Any other material conflict of interest at the time of publishing the research report by Spark and its associates	No
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