

TCL Limited (TRPC IN)

Benefit of multimodal network

INDIA | LOGISTICS | Quarterly Update

4 November 2020

Top takeaways from 2QFY21

- ✓ Better than expectations. Recovery in freight division while growth in supply chain (SCM) and costal shipping business.
- ✓ Improvement in margins with cost control in employee and other expenditure.

Key highlights

Consolidated revenue declined by 2.6%yoy to Rs 6.1bn (higher than estimates of Rs 4.4bn). Gross margins declined by 70bps to 18.7% in 2QFY21. EBITDA increased by 4.3% yoy (+48.7% qoq) to Rs 590mn, higher than estimates of Rs 397mn. EBITDA margins increased from 9.0% in 2QFY20 to 9.6% in 2QFY21. Interest cost declined by 17.3%yoy to Rs 63.7mn. Depreciation cost increased by 4.3%yoy to Rs 197mn. PBT increased by 4.4% yoy to Rs 399mn. The company reported profit of Rs 320mn in 2QFY21 vs estimates of profit of Rs 153mn. The reported profit declined by 25.8%yoy mainly due to tax benefit of Rs 49mn in 2QFY20.

Conference call takeaways

- Freight division revenue declined 9.1%yoy (up +76% qoq) to Rs 2.8bn; Supply Chain revenue increased by 2.2%yoy (up +134% qoq) to Rs 2.4bn; Seaways revenue grew by 9.2%yoy (up +37%qoq) to Rs 932mn.
- EBITDA in freight division grew by 2.2%yoy to Rs 114mn with margin improvement of 50bps to 4.1% in 2QFY21; EBITDA in SCM grew by 3.5%yoy to Rs 254mn and in seaways increased by 9.3%yoy to Rs 245mn. EBITDA margins in SCM and Seaways remained stable on yoy basis to 10.3% and 28.1% respectively in 2QFY21.
- The company was able to ramp up operations to 85-90% in freight segment with increased movement of goods, pent up demand and restocking due to festive season. LTL business is c. 31% of overall freight business supporting the margins.
- Growth in SCM was supported by automotive demand revival and growth in E-commerce & FMCG. SCM margins improved due better revenue realization and cost optimization measures.
- Shipping benefited from high growth in Western sector and one ship addition in November last year.
- JV performance: TCI Concor operating asset light rail operations reported revenue growth of 69%yoy to Rs 1.5bn in 1HFY21. Transystem focused on automotive logistics reported revenue decline of 52%yoy to Rs 1.15bn in 1HFY21. TCI Cold chain reported revenue of Rs 147mn in 1HFY21 compared to Rs 258mn in FY20.
- It had capital expenditure of Rs 297mn in 1HFY21 and expect capex of Rs 1.5bn in FY21 compared to Rs 1.1bn in FY20. Capex is mainly for developing hub centers, warehouses and ship addition. It plans to add one coastal ship in 4QFY21 with capex of c. Rs400mn.

Outlook and valuation: At CMP, stock trades at 11.3x our FY22 earnings. We have revised earnings considering strong operating performance in 2QFY21. TCI has a strong history of maintaining growth in different economic cycles. It is best placed to provide a cost-effective solution to the customized needs of its clients due to its national network (historical asset base at strategic locations) and multimodal capabilities. The level playing field for organized players post GST and E-way Bill would help to increase market share. We have revised valuation at 15x FY23EPS (from 15x FY22) to arrive at a target of Rs 345 (earlier Rs 235).

| Consolidated (Rs mn) | 2QFY21 | 2QFY20 | yoy | 1QFY21 | qoq | vs. expect. | Comments |
|----------------------|--------|--------|-------|--------|----------|-------------|--|
| | | | | | growth % | % | |
| Revenue | 6122 | 6282 | -2.6 | 3280 | 86.7 | 40.2 | Freight -9.1%yoy; SCM +2.2%yoy; Seaways +9.2%yoy |
| EBITDA | 590 | 566 | 4.3 | 279 | 111.9 | 48.7 | Cost control in employee and operating cost |
| EBITDA margins | 9.6% | 9.0% | 63bps | 8.5% | 115bps | | Recovery in margins |
| Other income | 70 | 83.5 | | 89.0 | -20.4 | 18.0 | |
| Depreciation | 197 | 189 | 4.3 | 195 | 1.4 | -1.1 | Capex of Rs 297mn in 1HFY21 |
| Interest | 63 | 77 | -17.3 | 69 | -8.5 | -9.0 | |
| PBT | 399 | 382 | 4.4 | 103 | 289 | 113.8 | |
| PAT | 320 | 432 | -25.8 | 99 | 224.5 | 109.0 | |

BUY (Maintain)

CMP RS 226 / TARGET Rs 345 (+52%)

COMPANY DATA

| | |
|-------------------------|-----------|
| O/S SHARES (MN) : | 77 |
| MARKET CAP (RSBN) : | 70 |
| MARKET CAP (USDBN) : | 0.2 |
| 52 - WK HI/LO (RS) : | 293 / 121 |
| LIQUIDITY 3M (USDMMN) : | 0.3 |
| PAR VALUE (RS) : | 10 |

SHARE HOLDING PATTERN, %

| | Sep 20 | Jun 20 | Mar 20 |
|-------------------|--------|--------|--------|
| PROMOTERS : | 66.7 | 66.9 | 66.9 |
| FII / NRI : | 2.3 | 2.4 | 2.5 |
| FI / MF : | 11.5 | 9.5 | 9.4 |
| NON PRO : | 7.6 | 9.0 | 9.7 |
| PUBLIC & OTHERS : | 11.9 | 12.2 | 11.6 |

KEY FINANCIALS

| Rs mn | FY20 | FY21E | FY22E |
|-----------------|-------|-------|-------|
| Net Sales | 27178 | 24299 | 28478 |
| EBITDA | 2405 | 2126 | 2525 |
| Net Profit | 1531 | 1153 | 1533 |
| EPS, Rs | 19.9 | 15.0 | 20.0 |
| PER, x | 11.3 | 15.0 | 11.3 |
| EV/EBITDA, x | 8.9 | 10.0 | 8.3 |
| PBV, x | 1.7 | 1.5 | 1.4 |
| ROE, % | 15.0 | 10.3 | 12.1 |
| Debt/Equity (%) | 0.4 | 0.4 | 0.4 |

CHANGE IN ESTIMATES

| Rs mn | Revised Est. | | % Revision | |
|----------|--------------|--------|------------|-------|
| | FY21E | FY22E | FY21E | FY22E |
| Revenue | 24,299 | 28,478 | 16% | 3% |
| EBITDA | 2,126 | 2,525 | 48% | 11% |
| Core PAT | 1,153 | 1,533 | 128% | 28% |
| EPS (Rs) | 15.0 | 20.0 | 128% | 28% |

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Consolidated

| Year End March (Rs mn) | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 | 2QFY21 |
|------------------------|--------|--------|--------|--------|--------|
| Revenue | 6282 | 6473 | 6257 | 3280 | 6122 |
| Operating expense | 5062 | 5241 | 5025 | 2587 | 4976 |
| Opex as % of sales | 80.6% | 81.0% | 80.3% | 78.9% | 81.3% |
| Employee | 374 | 370 | 408 | 289 | 329 |
| Other expenses | 281 | 235 | 245 | 126 | 227 |
| EBITDA | 566 | 627 | 580 | 279 | 590 |
| EBITDA margins (%) | 9.0% | 9.7% | 9.3% | 8.5% | 9.6% |
| Other Income | 83.5 | 57.5 | 66.6 | 89.0 | 70.8 |
| Depreciation | 189.8 | 204.0 | 196.6 | 195.2 | 197.9 |
| Interest | 77.0 | 84.3 | 79.8 | 69.6 | 63.7 |
| PBT | 382.4 | 396.2 | 370.0 | 102.7 | 399.3 |
| Tax | -49.1 | 74.9 | 57.2 | 4.1 | 79.3 |
| Tax rate (%) | -12.8% | 18.9% | 15.5% | 4.0% | 19.9% |
| Adj PAT | 432 | 321 | 313 | 99 | 320 |
| Extraordinary | -98.8 | 0.0 | 0.0 | 1.4 | 5.2 |
| Reported PAT | 333 | 321 | 313 | 100 | 325 |
| EPS (Rs) | 5.6 | 4.2 | 4.1 | 1.3 | 4.2 |

Segmental details

| Standalone | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 | 2QFY21 |
|---------------------|--------|--------|--------|--------|--------|
| Freight Division | 3058 | 3203 | 3227 | 1578 | 2781 |
| Supply chain | 2413 | 2368 | 2078 | 1056 | 2467 |
| Seaways | 854 | 989 | 1046 | 682 | 932 |
| Energy | 30 | 5 | 6 | 14 | 17 |
| EBIT (Rs mn) | | | | | |
| Freight Division | 91 | 117 | 117 | 20 | 98 |
| Supply chain | 160 | 131 | 101 | 31 | 164 |
| Seaways | 145 | 226 | 225 | 41 | 155 |
| Energy | 20 | -1 | -1 | 8 | 11 |
| EBIT (%) | | | | | |
| Freight Division | 3.0% | 3.6% | 3.6% | 1.3% | 3.5% |
| Supply chain | 6.6% | 5.6% | 4.9% | 3.0% | 6.6% |
| Seaways | 17.0% | 22.9% | 21.5% | 6.0% | 16.6% |

Source: Company, PhillipCapital India Research

Financials

Income Statement

| Y/E Mar, Rs mn | FY20 | FY21E | FY22E | FY23E |
|---------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 27,178 | 24,299 | 28,478 | 31,418 |
| Growth, % | -1 | -11 | 17 | 10 |
| Total income | 27,178 | 24,299 | 28,478 | 31,418 |
| Raw material expenses | -22,143 | -19,804 | -23,209 | -25,606 |
| Employee expenses | -1,572 | -1,361 | -1,595 | -1,759 |
| Other Operating expenses | -1,058 | -1,009 | -1,148 | -1,279 |
| EBITDA (Core) | 2,405 | 2,126 | 2,525 | 2,774 |
| Growth, % | (3.6) | (11.6) | 18.8 | 9.8 |
| Margin, % | 8.9 | 8.7 | 8.9 | 8.8 |
| Depreciation | -825 | -812 | -873 | -905 |
| EBIT | 1,580 | 1,314 | 1,652 | 1,869 |
| Growth, % | (8.2) | (16.9) | 25.8 | 13.1 |
| Margin, % | 5.8 | 5.4 | 5.8 | 5.9 |
| Interest paid | -343 | -348 | -371 | -383 |
| Other Non-Operating Income | 201 | 195 | 204 | 215 |
| Pre-tax profit | 1,340 | 1,160 | 1,486 | 1,701 |
| Tax provided | -159 | -220 | -253 | -289 |
| Profit after tax | 1,181 | 940 | 1,233 | 1,412 |
| Others (Minorities, Associates) | 252 | 214 | 299 | 344 |
| Net Profit | 1,432 | 1,153 | 1,533 | 1,756 |
| Growth, % | 4.9 | (24.6) | 32.9 | 14.5 |
| Net Profit (adjusted) | 1,531 | 1,153 | 1,533 | 1,756 |
| Unadj. shares (m) | 77 | 77 | 77 | 77 |

Balance Sheet

| Y/E Mar, Rs mn | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash & bank | 259 | 556 | 996 | 981 |
| Debtors | 4,873 | 5,060 | 5,461 | 6,025 |
| Inventory | 66 | 72 | 80 | 88 |
| Loans & advances | 268 | 300 | 360 | 403 |
| Other current assets | 1,121 | 1,143 | 1,257 | 1,383 |
| Total current assets | 6,586 | 7,131 | 8,155 | 8,880 |
| Investments | 1,799 | 1,978 | 2,410 | 2,770 |
| Gross fixed assets | 10,527 | 11,624 | 12,944 | 14,744 |
| Less: Depreciation | -3,043 | -3,855 | -4,728 | -5,633 |
| Add: Capital WIP | 216 | 183 | 183 | 183 |
| Net fixed assets | 7,699 | 7,952 | 8,399 | 9,294 |
| Non-current assets | 234 | 234 | 234 | 234 |
| Total assets | 16,319 | 17,296 | 19,199 | 21,179 |
| Current liabilities | 1,934 | 1,731 | 1,951 | 2,152 |
| Provisions | 102 | 112 | 124 | 136 |
| Total current liabilities | 2,036 | 1,843 | 2,074 | 2,288 |
| Non-current liabilities | 3,988 | 4,142 | 4,420 | 4,569 |
| Total liabilities | 6,024 | 5,986 | 6,494 | 6,857 |
| Paid-up capital | 154 | 154 | 154 | 154 |
| Reserves & surplus | 10,085 | 11,100 | 12,494 | 14,112 |
| Shareholders' equity | 10,295 | 11,310 | 12,705 | 14,322 |
| Total equity & liabilities | 16,319 | 17,296 | 19,199 | 21,179 |

Source: Company, PhillipCapital India Research Estimates

Cash Flow

| Y/E Mar, Rs mn | FY20 | FY21E | FY22E | FY23E |
|--|---------------|---------------|---------------|---------------|
| Pre-tax profit | 1,340 | 1,160 | 1,486 | 1,701 |
| Depreciation | 825 | 812 | 873 | 905 |
| Chg in working capital | -315 | -451 | -364 | -539 |
| Total tax paid | -417 | -220 | -253 | -289 |
| Cash flow from operating activities | 1,432 | 1,301 | 1,743 | 1,777 |
| Capital expenditure | -1,216 | -1,065 | -1,320 | -1,800 |
| Chg in investments | 112 | -179 | -432 | -360 |
| Cash flow from investing activities | -1,104 | -1,244 | -1,752 | -2,160 |
| Free cash flow | 329 | 57 | -9 | -383 |
| Equity raised/(repaid) | 496 | 470 | 470 | 470 |
| Debt raised/(repaid) | -405 | 155 | 277 | 149 |
| Dividend (incl. tax) | -101 | -128 | -127 | -126 |
| Cash flow from financing activities | 246 | 710 | 920 | 837 |
| Net chg in cash | 575 | 767 | 910 | 455 |

Valuation Ratios

| | FY20 | FY21E | FY22E | FY23E |
|--------------------------------|-------|--------|-------|-------|
| Per Share data | | | | |
| EPS (INR) | 19.9 | 15.0 | 20.0 | 22.9 |
| Growth, % | 4.7 | (24.6) | 32.9 | 14.5 |
| Book NAV/share (INR) | 133.3 | 146.5 | 164.7 | 185.7 |
| FDEPS (INR) | 19.9 | 15.0 | 20.0 | 22.9 |
| CEPS (INR) | 32.0 | 25.6 | 31.3 | 34.6 |
| CFPS (INR) | 19.1 | 14.4 | 20.0 | 20.3 |
| DPS (INR) | 1.5 | 1.5 | 1.5 | 1.5 |
| Return ratios | | | | |
| Return on assets (%) | 9.5 | 7.7 | 8.8 | 8.9 |
| Return on equity (%) | 15.0 | 10.3 | 12.1 | 12.3 |
| Return on capital employed (%) | 10.9 | 8.7 | 9.8 | 10.0 |
| Turnover ratios | | | | |
| Asset turnover (x) | 2.3 | 2.0 | 2.2 | 2.2 |
| Sales/Total assets (x) | 1.7 | 1.4 | 1.6 | 1.6 |
| Sales/Net FA (x) | 3.6 | 3.1 | 3.5 | 3.6 |
| Working capital/Sales (x) | 0.2 | 0.2 | 0.2 | 0.2 |
| Fixed capital/Sales (x) | 65.4 | 76.0 | 70.0 | 70.0 |
| Receivable days | 0.9 | 1.1 | 1.0 | 1.0 |
| Payable days | 9.4 | 9.9 | 9.9 | 9.9 |
| Working capital days | 57.6 | 71.1 | 65.2 | 65.2 |
| Liquidity ratios | | | | |
| Current ratio (x) | 3.2 | 3.9 | 3.9 | 3.9 |
| Quick ratio (x) | 3.2 | 3.8 | 3.9 | 3.8 |
| Interest cover (x) | 4.6 | 3.8 | 4.5 | 4.9 |
| Total debt/Equity (%) | 41.0 | 38.7 | 36.6 | 33.5 |
| Net debt/Equity (%) | 38.5 | 33.8 | 28.7 | 26.6 |
| Valuation | | | | |
| PER (x) | 11.3 | 15.0 | 11.3 | 9.9 |
| PEG (x) - y-o-y growth | 2.4 | (0.6) | 0.3 | 0.7 |
| Price/Book (x) | 1.7 | 1.5 | 1.4 | 1.2 |
| EV/Net sales (x) | 0.8 | 0.9 | 0.7 | 0.7 |
| EV/EBITDA (x) | 8.9 | 10.0 | 8.3 | 7.6 |
| EV/EBIT (x) | 13.5 | 16.1 | 12.7 | 11.3 |

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

| Rating | Criteria | Definition |
|---------|-----------------------------|---|
| BUY | $\geq +10\%$ | Target price is equal to or more than 10% of current market price |
| NEUTRAL | $-10\% > \text{to} < +10\%$ | Target price is less than +10% but more than -10% |
| SELL | $\leq -10\%$ | Target price is less than or equal to -10%. |

Mid cap and Small cap stocks

| Rating | Criteria | Definition |
|---------|-----------------------------|---|
| BUY | $\geq +15\%$ | Target price is equal to or more than 15% of current market price |
| NEUTRAL | $-15\% > \text{to} < +15\%$ | Target price is less than +15% but more than -15% |
| SELL | $\leq -15\%$ | Target price is less than or equal to -15%. |

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