

## Volumes largely normalise; margins remain strong...

TCI reported strong Q2FY21 results. Revenues grew strong QoQ (up 87%), which led to normalisation of revenues YoY to ₹ 612 crore. SCM reported highest recovery QoQ (up 134% QoQ, 2% YoY), followed by freight division (up 76% QoQ, down 9% YoY) and shipping division (up 37% QoQ, 9% YoY). The company continued to show resilience on the margins front. EBITDA margins expanded 63 bps YoY to 9.6% mainly due to lower employee and also other expenses to sales ratio (lower than estimates by 160 bps, 80 bps, respectively) although GMs negated the improvement, to an extent. The resultant EBITDA grew 4% YoY to ₹ 59 crore. Further, PAT grew 29% YoY to ₹ 32 crore (exceptional expense of ₹ 10 crore in the base quarter).

## Broad based recovery seen across segments

Freight operations saw healthy uptick in volumes (reached 85-90%), in line with the E-Way bill data generation (volumes normalised from September onwards). SCM business surprised with the recovery (2% YoY growth) and numbers touching highs of FY19. TCI saw growth in the e-commerce, FMCG sector along with demand revival in the automotive sector (~80% of SCM). The pick-up in demand was primarily due to festive season and is expected to revive the sector. Seaways also clocked 9% YoY growth with better fleet utilisation, on the back of strong growth in the western sector.

## LTL business largely normalise to pre-Covid levels

TCI has transitioned from an FTL player to enhanced focus on LTL business that not only utilises its fleet but commands better margins than the FTL business. Freight division involves both less than truckload (LTL) and full truckload (FTL) business. While FTL has low barriers to entry (BTE), LTL has a higher BTE (it involves time bound freight movement, better margins). Share of the LTL business has increased from 25% to 33% of freight division revenues. In Q2, LTL business has recovered to 31% of overall business. It is expected to reach around 40% in the next two to three years. An enhanced share would enable TCI to enhance profitability of its freight division.

## Valuation & Outlook

On the balance sheet front, TCI has improved its WC position (leading to payment of short term borrowings) and lowered its debt (while this also has an element of deferment of discretionary capex) and improved its liquidity position (the management is continually showing efforts in maintaining margins even in a scenario of weak operating leverage). It has a diversified portfolio of value-added services across varied customers & industries, lowering volatility in gross margins. For the year, the management expects demand from the e-commerce, FMCG, automobile sector, agriculture, pharmaceuticals and the chemical sector. Also, TCI has transitioned to the post-Covid business landscape where customers demand greater digitisation, live tracking and online presence. On an SOTP basis, we value the stock at ₹ 280/share and maintain our **BUY** rating on the stock.



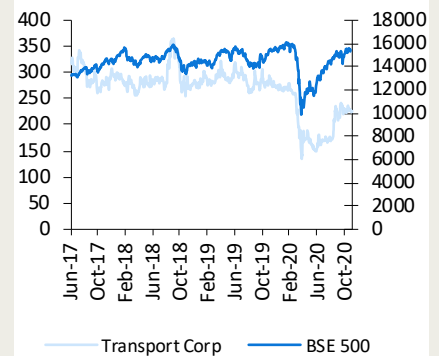
### Particulars

Market Cap. (₹cr)	1,641
Total Debt (FY 20) (₹Cr)	368.6
Cash and Investment	25.9
EV (₹Crore)	2448.5
52 week H/L	293/122
Equity Capital (₹Crore)	15.3
Face Value (₹)	2.0

### Key Highlights

- Revenues, EBITDA, PAT expected to grow at CAGR of 5%, 9%, 13%, respectively, during FY20-22
- Maintain BUY

### Price chart



### Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20
Promote	66.8	66.9	66.9	66.9
Others	33.2	33.1	33.1	33.1

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### Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR
Revenues (₹crore)	2,349.9	2,753.7	2,717.8	2,582.8	2,991.1	6.2
EBITDA (₹crore)	216.5	249.5	240.5	237.6	284.2	7.0
Adjusted Net Profit (₹crore)	123.2	144.4	142.4	141.9	182.0	10.3
EPS (₹)	16.1	18.8	18.6	18.5	23.8	
P/E (x)	13.9	11.9	12.1	12.1	9.5	
Price / Book (x)	2.3	1.9	1.7	1.5	1.3	
EV/EBITDA (x)	9.3	8.2	8.2	8.1	6.5	
RoCE (%)	13.4	14.2	12.4	11.1	12.8	
RoNW (%)	16.3	16.3	14.0	12.3	13.8	

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	612.2	558.4	628.2	-2.6	328.0	86.7	QoQ sharp up move in revenues due to uptick in all segments
Operating Expenses	497.6	443.9	506.2	-1.7	258.7	92.3	
Employee Expenses	32.9	39.1	37.4	-11.9	28.9	14.0	
Administrative & Oth Expenses	22.7	25.1	28.1	-19.3	12.6	80.4	
Total Expense	553.2	508.1	571.7	-3.2	300.1	84.3	
EBITDA	59.0	50.3	56.6	4.3	27.9	111.9	
EBITDA Margin (%)	9.6	9.0	9.0	63 bps	8.5	115 bps	Margins better than estimates due to lower employee and other expense
Depreciation	19.8	20.0	19.0	4.3	19.5	1.4	
Interest	6.4	7.5	7.7	-17.3	7.0	-8.5	
Other Income	7.1	7.4	8.4	-15.2	8.9	-20.4	
Exceptional Gain/Loss	0.0	0.0	-9.9	0.0	0.0	0.0	
PBT	39.9	30.2	28.4	40.8	10.3	288.8	
Total Tax	7.9	5.4	-4.9	-261.5	0.4	1,834.1	
PAT	32.0	24.7	33.3	-3.8	9.9	224.5	
Key Metrics	Q2FY21	Q2FY21E	Q2FY20	YoY	Q1FY21	QoQ	
Freight Division	278.1	275.2	305.8	-9.1	157.8	76.2	Operations have ramped up to 85-90%
Supply Chain Solutions	246.7	205.1	241.3	2.2	105.6	133.6	Growth in e-com, FMCG and revival in automotive demand
Seaways	93.2	81.1	85.4	9.2	68.2	36.7	Higher growth seen in western sector

Source: Company, ICICI Direct Research

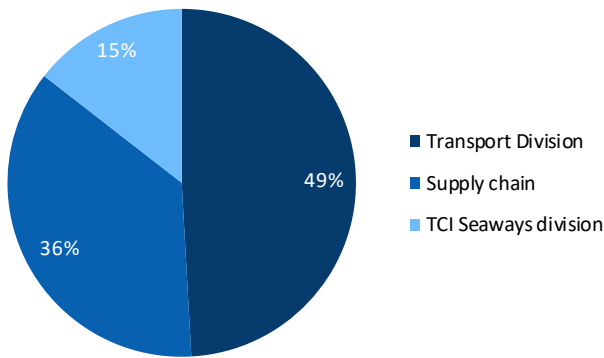
**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E					FY22E			Comments
	FY19	FY20	Old	New	% Change	Old	New	% Change	
Revenue	2,753.7	2,717.8	2,552.9	2,582.8	1.2	2,914.5	2,991.1	2.6	
EBITDA	249.5	240.5	219.6	237.6	8.2	262.3	284.2	8.3	
EBITDA Margin (%)	9.1	8.9	8.6	9.2	60 bps	9.0	9.5	50 bps	Margin expectation improves due to strong performance in H1FY21 on margin front
PAT	144.4	142.4	121.3	141.9	17.0	157.7	182.0	15.4	
EPS (₹)	18.8	18.6	15.8	18.5	17.0	20.6	23.8	15.4	

Source: Company, ICICI Direct Research

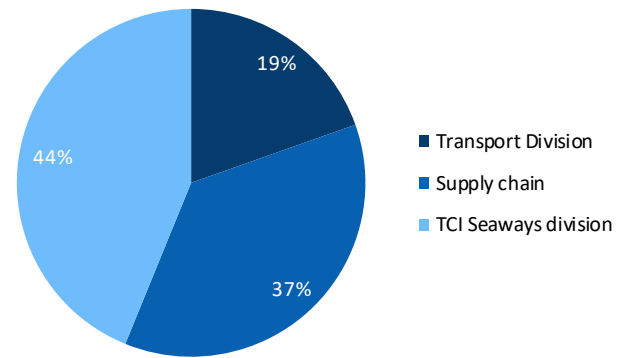
## Key Metrics

Exhibit 3: Segmental revenues (standalone) - FY20



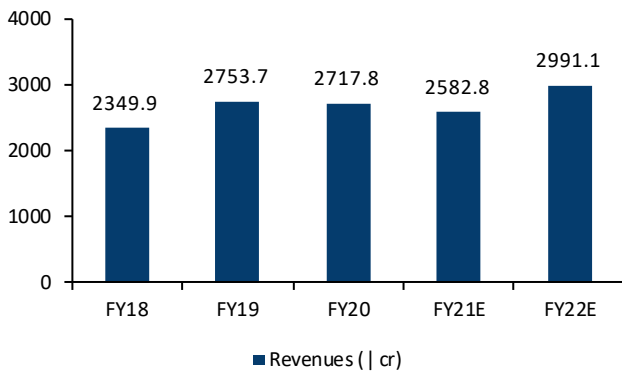
Source: ICICI Direct Research, Company

Exhibit 4: Segmental EBITDA (standalone) – FY20



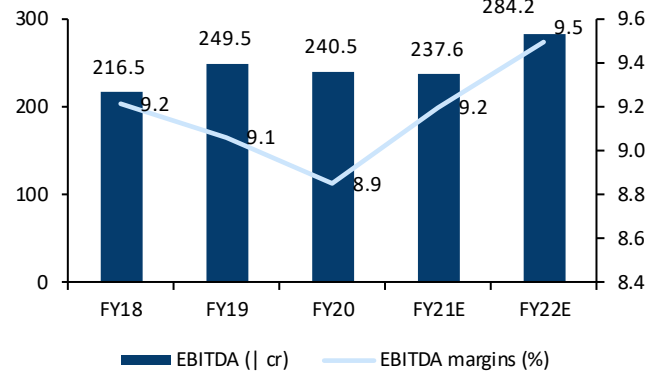
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 5% (FY20-22) CAGR



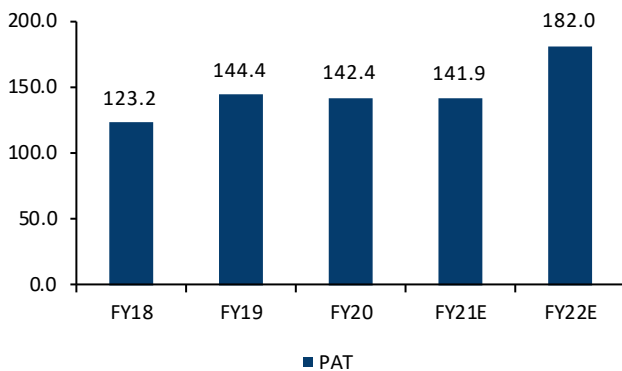
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA expected to grow at 9% CAGR (FY20-22)



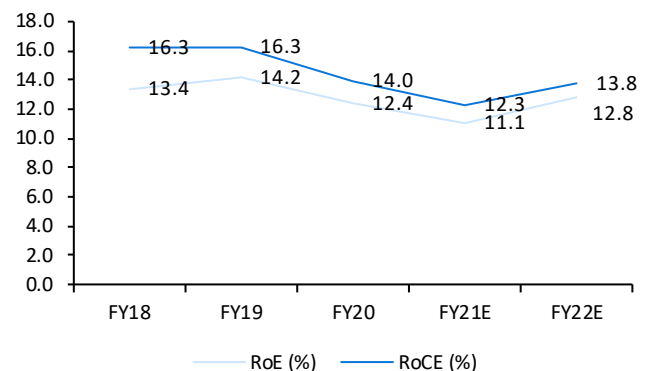
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 13% CAGR (FY20-22)



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITD (x)	RoNW (%)	RoC (%)
FY 17	1942.5	12.5	10.7	43.9	20.8	12.4	12.8	10.7
FY 18	2349.9	21.0	16.1	50.2	13.9	9.3	16.3	13.4
FY 19	2753.7	17.2	18.8	17.2	11.9	8.2	16.3	14.2
FY 20	2717.8	-1.3	18.6	-1.4	12.1	8.2	14.0	12.4
FY 21E	2582.8	-5.0	18.5	-0.3	12.1	8.1	12.3	11.1
FY 22E	2991.1	15.8	23.8	28.3	9.5	6.5	13.8	12.8

Source: Company, ICICI Direct Research

## Valuation & Outlook

On the balance sheet front, TCI has improved its WC position (leading to payment of short term borrowings) and lowered its debt (while this also has an element of deferment of discretionary capex) and improved its liquidity position (the management is continually showing efforts in maintaining margins, even in a scenario of weak operating leverage). It has a diversified portfolio of value-added services across varied customers & industries, lowering volatility in gross margins. For the year, the management expects demand from the e-commerce, FMCG, automobile sector, agriculture, pharmaceuticals and the chemical sector. Also, TCI has transitioned to the post-Covid business landscape where customers demand greater digitisation, live tracking and online presence. On an SOTP basis, we value the stock at ₹ 280/share and maintain our **BUY** recommendation on the stock.

Exhibit 10: SOTP valuation

Segment	Standalone EBITDA (FY22E) ₹crore	EV (x)	EV (₹crore)
Freight	50.4	5	252
Supply Chain	112.6	8	901
Seaways	155.3	6	963
Enterprise Value			2115
Net Debt (FY 22E)			34
<b>Market Value (Ex-TCI-Concor, Transystem)</b>			<b>2081</b>
Subsidiary	s (FY 22E) ₹crore	Revenue multiple	₹crore
JV:TCI-Concor (51% stake)	180	0.4	72
Joint Venture	s (FY 22E) ₹crore	Revenue multiple	₹crore
JV:Transystem (49% stake)t	180	0.4	72
Holding company discount (50%)			72
<b>Target Market Value</b>			<b>2153</b>
No of Shares			7.7
<b>Per Share Value</b>			<b>280</b>

Source: ICICI Direct Research

## Financial Summary

Exhibit 11: Profit & Loss Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	2,753.7	2,717.8	2,582.8	2,991.1
Growth (%)	17.2	-1.3	-5.0	15.8
Operating expense	2,251.5	2,214.3	2,117.9	2,437.7
Manpower Cost	140.2	157.2	134.3	149.6
Admin & other expense	112.4	105.8	93.0	119.6
Total Expense	2,504.1	2,477.3	2,345.2	2,706.9
EBITDA	249.5	240.5	237.6	284.2
Growth (%)	15.3	-3.6	-1.2	19.6
Depreciation	77.4	82.5	83.6	94.4
EBIT	172.1	158.0	154.0	189.7
Interest	37.4	34.3	30.5	23.3
Other Income	19.5	20.1	16.8	19.4
PBT	154.2	143.8	140.3	185.9
Growth (%)	18.6	-6.7	-2.5	32.5
Tax	33.3	15.9	25.3	33.5
Reported PAT	120.9	127.9	115.0	152.4
Growth (%)	19.2	5.8	-10.1	32.5
Share of Profit from JV	25.1	25.2	27.7	30.4
Minority Interest	0.9	0.8	0.8	0.8
Extraordinary Item	-0.7	-9.9	0.0	0.0
Adjusted PAT	144.4	142.4	141.9	182.0
EPS	18.8	18.6	18.5	23.8

Source: ICICI Direct Research

Exhibit 12: Cash flow Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	144.4	142.4	141.9	182.0
Add: Depreciation	77.4	82.5	83.6	94.4
Add: Interest Expense	37.4	34.3	30.5	23.3
Cash Profit	259.2	259.2	256.0	299.7
Increase/(Decrease) in CL	-130.9	-2.9	-47.0	-30.5
(Increase)/Decrease in CA	73.9	-13.6	-3.2	21.3
Others	-19.1	9.6	0.0	0.0
CF from Operating Activities	183.0	252.3	205.8	290.5
Purchase of Fixed Assets	-125.9	-133.6	-101.1	-151.1
(Inc)/Dec in Investments	-5.1	-20.1	-13.6	-15.0
Others	-20.4	1.0	0.6	0.6
CF from Investing Activities	-151.4	-152.8	-114.1	-165.5
Inc/(Dec) in Loan Funds	18.9	-45.6	-30.0	-80.0
Inc/(Dec) in Share Capital	0.0	0.0	0.0	0.0
Less: Interest Expense	-37.4	-34.3	-30.5	-23.3
Others	-11.8	-9.2	-9.2	-9.2
CF from financing activities	-30.3	-89.1	-69.7	-112.5
Change in cash Eq.	1.4	10.4	22.0	12.5
Op. Cash and cash Eq.	14.2	15.5	25.9	48.0
Cl. Cash and cash Eq.	15.5	25.9	48.0	60.5

Source: ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Source of Funds				
Equity Capital	15.3	15.4	15.4	15.4
Reserves & Surplus	876.6	1,008.5	1,141.2	1,314.0
Shareholder's Fund	892.0	1,023.9	1,156.6	1,329.4
Loan Funds	414.2	368.6	338.6	258.6
Deferred Tax Liability	39.0	30.2	30.8	31.4
Minority Interest	5.2	5.7	5.7	5.7
Govt Grant	2.0	1.9	1.9	1.9
Long Term Provisions	0.0	3.1	3.1	3.1
Source of Funds	1352.3	1433.4	1536.6	1630.1
Application of Funds				
Gross Block	952.4	1,061.7	1,161.7	1,311.7
Less: Acc. Depreciation	225.6	313.4	397.0	491.5
Net Block	726.8	748.3	764.7	820.2
Capital WIP	4.0	21.6	22.7	23.8
Non-Current Investments	116.8	135.4	148.9	163.8
Long Term Loans &	2.7	4.3	4.3	4.4
Other Non-Current	71.5	66.4	66.4	66.4
Inventories	5.3	6.6	6.4	6.6
Debtor	515.1	487.3	530.7	557.2
Cash	15.5	25.9	48.0	60.5
Loan & Advance, Other I	158.3	187.7	191.4	195.3
Current Liabilities	263.6	250.0	246.8	268.0
Trade Payables	67.4	63.9	56.6	73.8
Other Current Liabilities	189.7	175.9	179.4	183.0
Short Term Provisions	6.5	10.2	10.7	11.3
Application of Funds	1,352.3	1,433.4	1,536.6	1,630.1

Source: ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Book Value	116.4	133.2	150.5	173.0
Cash per share	67.2	63.6	69.2	72.7
EPS	18.8	18.6	18.5	23.8
Cash EPS	25.9	27.5	25.9	32.2
DPS	1.6	1.8	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	9.1	8.9	9.2	9.5
PAT Margin (%)	4.4	4.7	4.5	5.1
Fixed Asset Turnover (x)	3.8	3.6	3.4	3.6
Inventory Turnover (Days)	0.7	0.9	0.9	0.8
Debtor (Days)	68.3	65.4	75.0	68.0
Current Liabilities (Days)	8.9	8.6	8.0	9.0
Return Ratios (%)				
RoE	16.3	14.0	12.3	13.8
RoCE	14.2	12.4	11.1	12.8
RoIC	13.7	12.0	11.0	12.9
Valuation Ratios (x)				
P/E	11.9	12.1	12.2	9.5
Price to Book Value	1.9	1.7	1.5	1.3
EV/EBITDA	8.2	8.2	8.1	6.5
EV/Sales	0.7	0.7	0.7	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.4	0.3	0.2
Interest Coverage (x)	4.6	4.6	5.1	8.2
Debt to EBITDA (x)	1.7	1.5	1.4	0.9
Current Ratio	2.3	2.9	3.4	2.6

Source: ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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