Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

# Transport Corporation of India Ltd

## Seaways drives outperformance

| Logistics | Sharekhan code: TCI |
|---|---|

| Reco/View | Reco: **Buy** | ↔ | CMP: **Rs. 630** | Price Target: **Rs. 731** | ↑ |
|---|---|---|---|---|---|

↑ 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. 4,866 cr |
| 52-week high/low: | Rs. 696/222 |
| NSE volume: (No of shares) | 2.3 lakh |
| BSE code: | 532349 |
| NSE code: | TCI |
| Free float: (No of shares) | 2.6 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 66.5 |
| FII | 2.1 |
| DII | 12.7 |
| Others | 18.7 |

**Price chart**


**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 50.3 | 49.5 | 138.1 | 181.0 |
| Relative to Sensex | 50.0 | 36.7 | 116.5 | 131.3 |

*Sharekhan Research, Bloomberg*


**Summary**

- We retain a Buy on TCI Ltd with a revised price target of Rs. 731, led by upwardly revised estimates and valuation multiples.
- TCI reported strong outperformance in Q2FY2022 led by strong revenue growth in freight and seaways business along with exceptional margins in Seaways.
- The management upped revenue and net profit growth guidance for FY2022. New ship addition to be postponed to next year with rise in prices.
- Borrowings substantially reduced over trailing few months. Lower capex requirement and strong OCFs to increase cash position.


**Transport Corporation of India (TCI) reported higher than expected performance for Q2FY2022. The consolidated revenues grew by 18.4% y-o-y to Rs. 825 crore led by freight segment (revenues up 22% y-o-y, equally contributed by value and volume), supply chain management, (up 9% y-o-y) and seaways (up 47% y-o-y, largely value driven). Consolidated OPM at 12.7% (up 373bps y-o-y) was much higher than estimate led by seaways (up almost 1000bps q-o-q led by substantially high freight rates). Strong operational performance led to 106% y-o-y rise in consolidated net profit at Rs. 75.4 crore. The management upped topline and bottom-line growth guidance for FY2022. New ship addition may happen in FY2023 due to increased prices.**

**Key positives**

- Strong outperformance on OPM led by exceptional margins in seaways
- Substantial reduction in borrowings over last few months.
- Freight revenues up 22% y-o-y with improvement in margins both y-o-y and q-o-q.

**Key negatives**

- SCM business affected by chip shortages in auto and competitive environment.
- Concor JV revenues were flat owing to less container movements

**Management Commentary**

- Management revises revenues and net profit growth guidance for FY2022 to 15-20% (earlier 10-15%) and 35-40% (from 15-20%).
- Capex in FY2022 would be lower at Rs. 50-100 crore as it won't be able to purchase ship due to high prices.
- High freight rates in Shipping are not sustainable over medium to long term.

**Revision in estimates –** We have revised our estimates upwards factoring higher revenues and margins in Seaways business.

**Our Call**

**Valuation – Retain Buy with a revised price target of Rs. 731:** TCI is expected to benefit from the logistics sector's growth tailwinds led by GST (business moving towards the organised sector), impact of COVID-19 (increased outsourcing of logistics services to prevent supply chain disruptions in future), government thrust on Atmanirbhar Bharat (PLI incentives to increase domestic manufacturing in turn leading to increased logistics needs), and global supply chain re-alignments (India is expected to be one of the key beneficiaries of China +1 strategy for global manufacturers). 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. 731 factoring upwardly revised estimates and valuation multiples.

**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 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue | 2,802.4 | 3,299.6 | 3,651.0 | 4,040.3 |
| OPM (%) | 9.3 | 10.9 | 10.3 | 10.4 |
| Adjusted PAT | 160.2 | 235.3 | 243.0 | 268.4 |
| % YoY growth | *5.2* | *46.9* | *3.3* | *10.5* |
| Adjusted EPS (Rs.) | 20.9 | 30.6 | 31.6 | 34.9 |
| P/E (x) | 30.2 | 20.6 | 19.9 | 18.0 |
| P/B (x) | 4.1 | 3.5 | 3.0 | 2.6 |
| EV/EBITDA (x) | 18.7 | 13.6 | 13.0 | 11.5 |
| RoNW (%) | 14.6 | 18.5 | 16.3 | 15.6 |
| RoCE (%) | 10.1 | 13.9 | 12.8 | 12.6 |

*Source: Company; Sharekhan estimates*

**Strong outperformance driven by freight and Seaways**

Transport Corporation of India (TCI) reported strong results for Q2FY2022 driven by growth across all its key three verticals and an improvement in OPM y-o-y. The consolidated revenues grew by 18.4% y-o-y to Rs. 825 crore (up 18.5% y-o-y) led by strong revenue growth in the freight segment (revenues up 22% y-o-y, growth contributed equally by value and volume), supply chain management, (up 9% y-o-y, growth was constrained by weak auto demand as it continued to suffer from chip shortages) and seaways (up 46.5% y-o-y, Mostly value led growth due to substantial increase in freight rates). Consolidated OPM rose 373 bps y-o-y led by strong rise in EBITDA margins in Seaways (46.1% versus 27.9% in Q2FY2021) while its SCM business reported decline in EBITDA margins at 10.4% versus 10.7% in Q1FY2022 owing to weak auto demand and competitive environment). Hence, overall operating profit was up by 68% y-o-y to Rs. 104.5 crore, which was much higher than our estimates. A strong operational performance led to an 106% y-o-y rise in adjusted net profit to Rs 75.4 crore which again was much higher than estimate.

**Management ups FY2022 guidance**

The management revised its revenue growth guidance to 15-20% y-o-y (earlier 10-15%) and bottom line guidance of 35-40% y-o-y (earlier 15-20%). However H2 looks moderate because of high base and some impact of third wave might be there. The auto demand is expected to improve in H2FY2022 as chip shortages eases. The company has been diversifying into other allied segments such as two wheelers, farm, electric vehicles and earth moving equipments which have been witnessing healthy growth. Further, shipping may benefit in the short term from higher freight rates. However, the same is not sustainable in the medium to long term. In SCM business, the company continues to target profitable business rather than chasing volumes. Overall, the management is optimistic on logistics sector growth led by government policies like Gati shakti program.

**Key Conference Call takeaways -**

- **Guidance:** The company revised its revenue growth guidance to 15-20% y-o-y (earlier 10-15%) and bottom-line guidance of 35-40% y-o-y (earlier 15-20%). However H2 looks moderate because of high base and some impact of third wave might be there.
- **Sector outlook:** Gati Shakti program launched by the government is expected to help logistics sector. The auto sector did not do well in Q2 but shipping did very well. The company saw good growth in pharma, chemicals, agriculture, cold chain (90% y-o-y increase in H1FY2022) and SAARC side logistics.
- **Borrowings:** The company has been able to reduce borrowings substantially over last few months. Currently, it has only Rs. 75 crores debt.
- **Freight:** Freight revenues grew by 22% y-o-y (equal value and volume growth) with OPM inching up led by increasing LTL business. The segment crossed 20% RoCE.
- **SCM:** The company diversified into two wheelers, farm, earth moving equipments and EV segments as auto sector was hit by semi-conductor shortages. There was a lag in passing fuel costs which was also due to competitive pressure. The growth in the segment was subdued but qualitative.
- **Seaways:** The segment did exceedingly well. The growth was mostly driven by value. It won few sailings in Myanmar which helped profitability. The company benefited from rise in freight rate on western side but the same is not sustainable over medium to long term. It was able to pass the rise in fuel costs. One ship was dry docked in Q2 while two will be dry docked in Q3 and one in Q4.
- **Concor JV:** It was flat as some contract terms changed leading to movement of less container.
- **Cold chain and Transystem:** Cold chain saw 89% y-o-y growth and transystem 76%.
- **Capex:** The company would not be able to purchase any ship during FY2022 as ships are not available in the market and prices have gone up substantially. Hence, the capex for FY2022 would be lower at Rs. 50-100 crore. It would be investing in rakes and trucks for replacement.

**Financials (Consolidated)** **Rs cr**

| Particulars | Q2FY2022 | Q2FY2021 | y-o-y% | Q1FY2022 | q-o-q% |
|---|---|---|---|---|---|
| **Net sales** | **825.1** | **696.9** | **18.4%** | **696.1** | **18.5%** |
| Other income | 2.9 | 6.6 | -55.5% | 4.1 | -28.4% |
| Total income | 828.1 | 703.5 | 17.7% | 700.2 | 18.3% |
| Total expenses | 720.6 | 634.6 | 13.5% | 620.4 | 16.2% |
| **Operating profit** | **104.5** | **62.3** | **67.9%** | **75.8** | **38.0%** |
| Depreciation | 25.6 | 20.9 | 22.7% | 24.7 | 3.7% |
| Interest | 3.3 | 6.9 | -52.4% | 4.7 | -30.1% |
| Exceptional items | 0.0 | 0.0 | | 0.0 | |
| **Profit Before Tax** | **78.5** | **41.0** | **91.4%** | **50.4** | **55.8%** |
| Taxes | 9.6 | 8.4 | 14.7% | 6.4 | 50.8% |
| PAT | 68.9 | 32.6 | 111.2% | 44.0 | 56.5% |
| Minority Interest/JV income | -6.5 | -4.0 | - | -2.9 | - |
| **Adjusted PAT** | **75.4** | **36.6** | **106.0%** | **46.9** | **60.9%** |
| EPS (Rs.) | 9.8 | 4.8 | 106.0% | 6.1 | 60.9% |
| **Margins** | | | | | |
| OPM (%) | 12.7% | 8.9% | 373 bps | 10.9% | 178 bps |
| NPM (%) | 9.1% | 5.3% | 389 bps | 6.7% | 241 bps |
| Tax rate (%) | 12.3% | 20.5% | -820 bps | 12.7% | -41 bps |

*Source: Company Data; 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 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, an organised domestic logistics players have been able to improve their business led by user-industries' preference towards credible supply chain management in wake of 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. 731

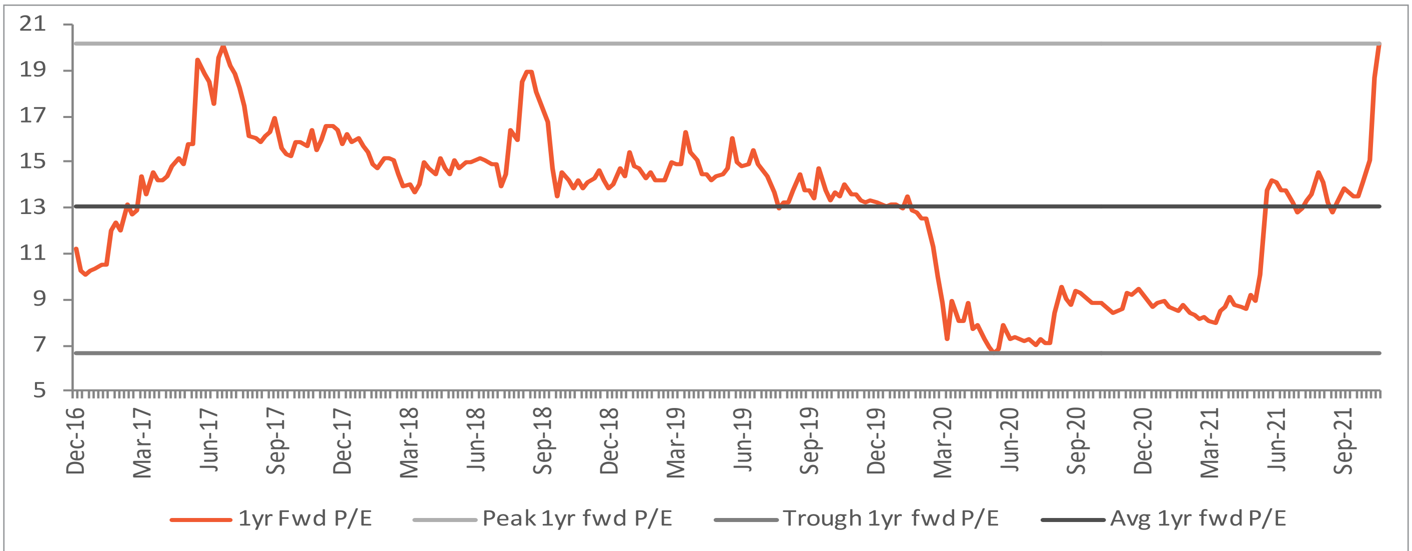
TCI is expected to benefit from the logistics sector's growth tailwinds led by GST (business moving towards the organised sector), impact of COVID-19 (increased outsourcing of logistics services to prevent supply chain disruptions in future), government thrust on Atmanirbhar Bharat (PLI incentives to increase domestic manufacturing in turn leading to increased logistics needs), and global supply chain re-alignments (India is expected to be one of the key beneficiaries of China +1 strategy for global manufacturers). 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. 731 factoring upwardly revised estimates and valuation multiples.

**Valuation Summary**

| Particulars | Valuation method | EV (Rs. cr) | Value per share (Rs.) |
|---|---|---|---|
| Freight | 11x EV/EBITDA on FY2024E | 1029 | 134 |
| SCM | 15x EV/EBITDA on FY2024E | 2475 | 322 |
| Seaways | 11x EV/EBITDA on FY2024E | 1858 | 242 |
| Less: Net Debt | | -141 | -18 |
| Value of core verticals | | 5502 | 716 |
| Transystem JV | 1x P/B | 117 | 15 |
| **Price target** | | | **731** |

*Source: Sharekhan Research*

**One-year forward P/E (x) band**




*Source: Sharekhan Research*

**Peer Comparison**

| Particulars | P/E (x) | | EV/EBITDA (x) | | P/BV (x) | | RoE (%) | |
|---|---|---|---|---|---|---|---|---|
| | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E |
| TCI | 19.9 | 18.0 | 13.0 | 11.5 | 3.0 | 2.6 | 16.3 | 15.6 |
| TCI Express | 40.6 | 33.5 | 29.1 | 23.8 | 9.9 | 7.8 | 27.6 | 26.4 |
| Mahindra Logistics | 63.2 | 43.8 | 17.1 | 13.8 | 6.2 | 5.4 | 11.4 | 14.4 |
| Gateway Distriparks | 16.3 | 12.2 | 8.7 | 7.0 | 2.1 | 1.8 | 12.9 | 15.5 |

*Source: 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 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

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## Key Risks

- Slowdown in the macro-economy leading to weak logistics industry outlook.
- High concentration towards 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 Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | HDFC AMC | 6.36 |
| 2 | HDFC Trustee | 3.11 |
| 3 | C. Robeco AMC | 2.81 |
| 4 | IDFC AMC | 2.64 |
| 5 | Sundaram AMC | 1.07 |
| 6 | Dimensional Fund | 0.91 |
| 7 | TATA AMC | 0.83 |
| 8 | GIC AMC | 0.60 |
| 9 | JP Morgan | 0.51 |
| 10 | LIC Nomura MF | 0.46 |

*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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