

## Growth revival seen in freight, SCM segment...

**About the stock:** TCI is a leading provider of integrated multimodal logistics and supply chain solutions. The company has over six decades of experience and moves nearly 2.5% of India's GDP by value.

- TCI has 9000+ trucks in operation, six owned coastal ships, 12 million square feet warehousing space, 900 offices
- In FY22, freight formed 15% of EBITDA while SCM and coastal shipping contributed 26% and 58%, respectively

**Q2FY23 Results:** Margins impacted by dry docking, lower international volumes.

- Revenues grew 16% YoY at ₹ 851 crore, led by freight, SCM, shipping revenue growth of 16%, 27%, (8)%, respectively
- However, absolute EBITDA de-grew 7% to ₹ 92 crore (EBITDA margins contracted 265 bps to 10.8%)
- Subsequently, PAT de-grew 16% to ₹ 57 crore

**What should investors do?** Although growth in the seaways division will likely be impacted (flattish YoY) due to correction in ocean freight charges, high base and impediment in acquisition of newer ship (due to high prices), recovery in SCM and LTL segment is expected to negate the impact to a limit.

- Due to a sharp correction in the stock post Q2 results, we maintain our **BUY** rating as valuations look attractive (debt free, multi-modal business)

**Target Price and Valuation:** We value the stock at ₹ 810 (SOTP).

**Key triggers for future price performance:** TCI's multimodal solutions cater to the needs of a diversified customer base and help it to capture a higher wallet share of its customers.

- Focus on margin improvement by controlled cost structure and higher value added services
- Strong fundamentals (b/s, CF) together with improvement in margins and higher asset turnover, are expected to push return ratios to 18-20% in FY24

**Alternate Stock Idea:** Apart from TCI, we remain positive on Mahindra Logistics.

- Mahindra Logistics is an end to end 3PL logistics solution provider, from performing milk run to in-factory logistics, warehousing to first mile and last mile logistics
- Continued momentum in the non-auto segment of MLL to drive higher contribution from the value added services and thereby improve its margins as well as opportunity to capture higher wallet share of existing customers

### Key Financial Summary

(Year-end March)	FY20	FY21	FY22E	5 Years CAGR (FY17-22)	FY23E	FY24E	CAGR
Revenues (₹ crore)	2,717.8	2,802.4	3,256.7	10.9%	3,715.2	4,346.5	10.1%
EBITDA (₹ crore)	240.5	261.2	408.7	20.3%	442.1	521.6	8.5%
Adjusted Net Profit (₹ crore)	142.4	147.1	289.6	28.7%	323.4	387.1	10.2%
EPS (₹)	18.3	18.9	37.3		41.6	49.8	
P/E (x)	36.0	34.3	17.7		15.9	13.3	
Price / Book (x)	5.0	4.4	3.6		3.0	2.5	
EV/EBITDA (x)	21.7	19.5	11.9		10.8	9.1	
RoCE (%)	12.4	13.3	20.3		19.9	20.1	
RoNW (%)	14.0	12.9	20.5		18.8	18.6	



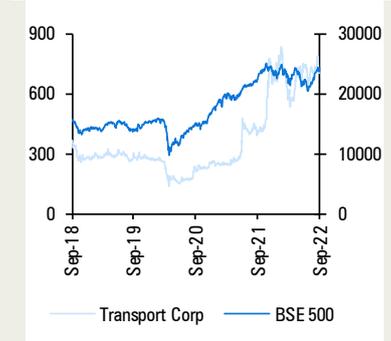
### Particulars

Particular	Amount
Market Cap. (₹ cr)	4,888
Total Debt (FY22) (₹ Cr)	61.9
Cash and Investment (FY22) (₹)	74.5
EV (₹ Crore)	5118.2
52 week H/L	859/527
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	66.5	66.6	66.6	69.0
Others	33.5	33.4	33.4	31.0

### Price Chart



### Recent event & key risks

- Acquisition of cargo ship
- **Key Risk:** (i) Continued hikes in diesel prices (ii) Slowdown in auto sector

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## Key takeaways

### Q2FY23 Results: Margins expected to normalise with ships back from dry-dock in H2

- On the EBITDA front, seaways comprised ~49% of consolidated EBIT, followed by SCM (33%) and transportation (17%)
- Seaways saw slower demand due to monsoon, dry-docking of ship and lower international volumes during the quarter
- SCM segment, on the other hand, saw highest ever revenues due to retention and expansion of clients. However, headwinds exist of inflation on consumer demand

### Q2FY23 Earnings Conference Call highlights

- On the shipping front, the management expects current margins to sustain in the medium term. In spite of improving its budget to procure a ship in FY23 to ₹ 90 crore, the management expects the purchase to shift to FY24 (due to ongoing higher prices for ships)
- On the freight business front, the management expects LTL: FTL ratio to come on track in the near term and expect the performance to remain stable
- On the TCI Concor JV front, the management expects the performance to pick up in H2 (H1 was subdued)
- Capex plans remains at ₹ 125-150 crore for FY23 (without addition of ship)
- The management retains guidance of 15% on topline, bottomline in FY23
- The management is not seeing any major impact of inflation on B2B movement

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	850.9	806.8	736.5	15.5	807.2	5.4	YoY higher revenues led by strong growth in freight, SCM revenues
Operating Expenses	679.9	633.4	573.0	18.7	637.4	6.7	
Employee Expenses	47.5	44.4	40.4	17.6	45.3	4.9	
Administrative & Oth Expenses	31.9	25.0	24.3	31.1	25.4	25.5	
Total Expense	759.3	702.8	637.7	19.1	708.0	7.2	
EBITDA	91.6	104.1	98.8	-7.3	99.2	-7.6	
EBITDA Margin (%)	10.8	12.9	13.4	-265 bps	12.3	-152 bps	Seaways division reports 41.5% EBITDA margins vs. 46.1% in Q2FY22, impacting consolidated margins
Depreciation	28.9	26.4	24.2	19.6	27.8	3.9	
Interest	2.1	1.9	2.8	-23.8	1.9	12.8	
Other Income	7.6	9.8	5.6	36.0	15.9	-52.3	
Exceptional Gain/Loss	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	68.2	85.6	77.5	-12.0	85.4	-20.2	
Total Tax	10.8	15.4	9.1	18.0	8.8	22.7	
PAT	57.4	70.2	68.4	-16.0	76.6	-25.1	In sync with operational performance
<b>Key Metrics</b>	<b>Q2FY23</b>	<b>Q2FY23E</b>	<b>Q2FY22</b>	<b>YoY</b>	<b>Q1FY23</b>	<b>QoQ</b>	
Freight Division	394.4	373.2	339.3	16.3	376.4	4.8	
Supply Chain Solutions	342.9	297.0	270.0	27.0	286.2	19.8	Revival in auto sector led to higher growth
Seaways	124.2	140.9	134.2	-7.5	152.5	-18.6	Extended dry dock of ships impacted performance

Source: Company, ICICI Direct Research

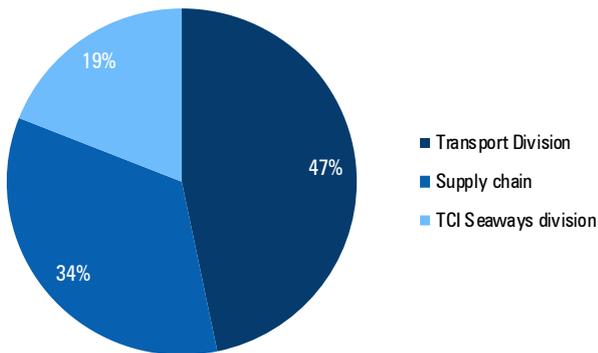
Exhibit 2: Change in estimates

(₹ Crore)	FY23E				FY24E			Comments
	FY22	Old	New	% Change	Old	New	% Change	
Revenue	3,256.7	3,778.0	3,715.2	-1.7	4,478.5	4,346.5	-2.9	Revenues kept largely intact
EBITDA	408.7	453.4	442.1	-2.5	541.9	521.6	-3.8	
EBITDA Margin (%)	12.6	12.0	11.9	-10 bps	12.1	12.0	-10 bps	
PAT	289.6	312.0	323.4	3.6	382.9	387.1	1.1	
EPS (₹)	37.3	40.1	41.6	3.8	49.3	49.8	1.1	

Source: ICICI Direct Research

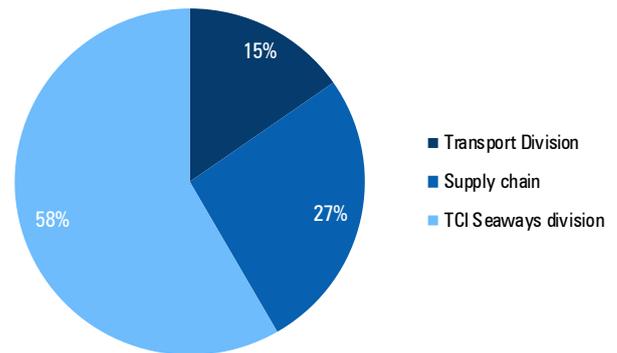
## Key Metrics

Exhibit 3: Segmental revenues - FY22



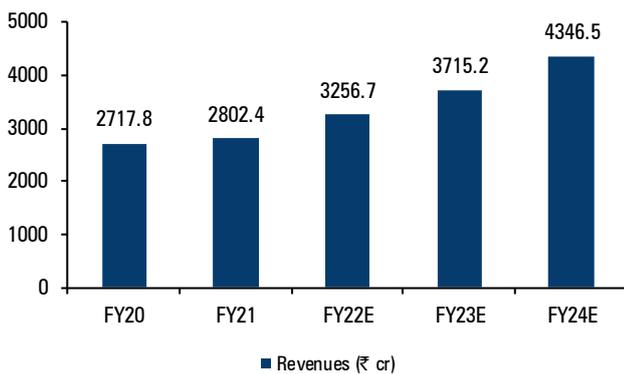
Source: ICICI Direct Research, Company

Exhibit 4: Segmental EBITDA – FY22



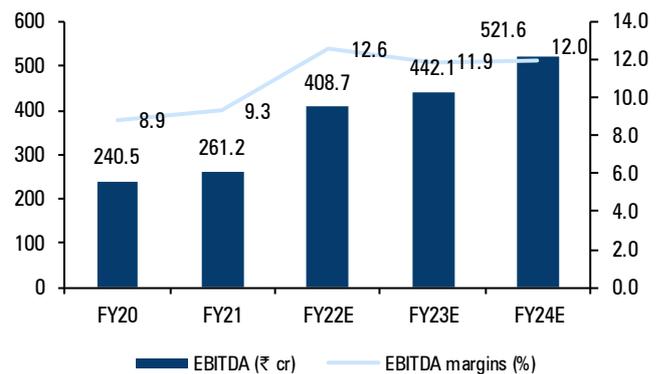
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 16% (FY22-24) CAGR



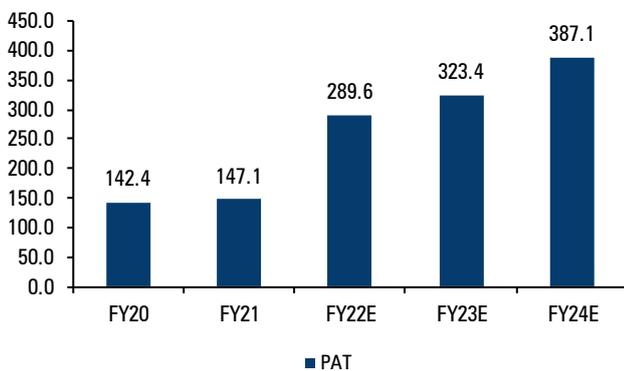
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA expected to grow at 13% CAGR (FY22-24)



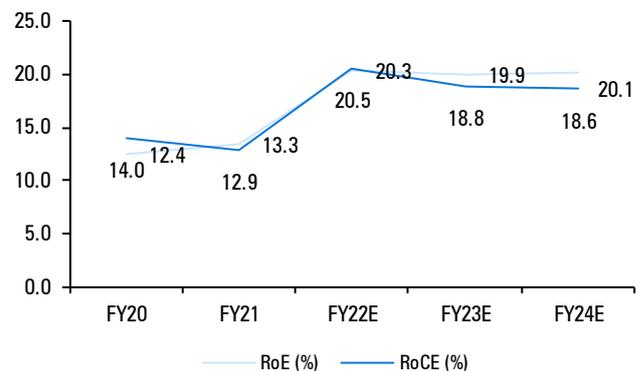
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 16% CAGR (FY22-24E)



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/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	2802.4	3.1	18.9	3.3	34.3	19.5	12.9	13.3
FY22	3256.7	16.2	37.3	96.8	17.7	11.9	20.5	20.3
FY23E	3715.2	14.1	41.6	11.7	15.9	10.8	18.8	19.9
FY24E	4346.5	17.0	49.8	19.7	13.3	9.1	18.6	20.1

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total operating Income	2,802.4	3,256.7	3,715.2	4,346.5	
Growth (%)	3.1	16.2	14.1	17.0	
Operating expense	2,297.2	2,576.6	2,972.2	3,477.2	
Manpower Cost	145.5	170.0	185.8	213.0	
Admin & other expense	98.4	101.3	115.2	134.7	
Total Expense	2,541.2	2,847.9	3,273.1	3,824.9	
EBITDA	261.2	408.7	442.1	521.6	
Growth (%)	8.6	56.5	8.2	18.0	
Depreciation	92.8	113.0	104.7	116.7	
EBIT	168.4	295.7	337.4	404.9	
Interest	26.7	12.8	2.2	0.1	
Other Income	25.5	19.9	26.0	30.4	
PBT	167.2	302.8	361.2	435.1	
Growth (%)	16.2	81.1	19.3	20.5	
Tax	23.8	37.7	65.0	78.3	
Reported PAT	143.4	265.2	296.1	356.8	
Growth (%)	12.1	85.0	11.7	20.5	
Share of Profit from JV	20.1	27.7	30.4	33.5	
Minority Interest	3.3	3.2	3.2	3.2	
Extraordinary Item	-13.1	0.0	0.0	0.0	
Adjusted PAT	147.1	289.6	323.4	387.1	
EPS	18.9	37.3	41.6	49.8	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	147.1	289.6	323.4	387.1	
Add: Depreciation	92.8	113.0	104.7	116.7	
Add: Interest Expense	26.7	12.8	2.2	0.1	
Cash Profit	266.6	415.5	430.3	503.9	
Increase/(Decrease) in CL	-5.5	-39.1	-157.2	-118.1	
(Increase)/Decrease in CA	34.8	-11.4	10.9	20.1	
Others	8.8	3.0	0.0	0.0	
CF from Operating Activities	304.7	368.0	284.0	405.9	
Purchase of Fixed Assets	-124.1	-70.7	-150.4	-150.4	
(Inc)/Dec in Investments	-24.4	-28.7	-18.1	-200.3	
Others	38.0	-28.0	0.6	0.6	
CF from Investing Activities	-110.5	-127.4	-167.9	-350.1	
Inc/(Dec) in Loan Funds	-133.9	-172.8	-30.0	-30.0	
Inc/(Dec) in Share Capital	0.1	0.1	0.0	0.0	
Less: Interest Expense	-26.7	-12.8	-2.2	-0.1	
Others	-20.1	-20.1	-20.1	-20.1	
CF from financing activities	-180.7	-205.7	-52.4	-50.3	
Change in cash Eq.	13.6	34.9	63.7	5.5	
Op. Cash and cash Eq.	25.9	39.5	74.5	138.1	
Cl. Cash and cash Eq.	39.5	74.4	138.1	143.7	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Source of Funds					
Equity Capital	15.4	15.5	15.5	15.5	
Reserves & Surplus	1,154.3	1,414.8	1,718.0	2,085.0	
Shareholder's Fund	1,169.7	1,430.3	1,733.5	2,100.5	
Loan Funds	234.7	61.9	31.9	1.9	
Deferred Tax Liability	27.3	27.6	28.1	28.7	
Minority Interest	8.6	27.4	27.4	27.4	
Govt Grant	1.9	1.9	1.9	1.9	
Long Term Provisions	11.8	4.6	4.6	4.6	
Source of Funds	1454.0	1553.6	1827.4	2164.9	
Application of Funds					
Gross Block	1,069.2	1,159.1	1,309.1	1,459.1	
Less: Acc. Depreciation	328.3	435.0	539.7	656.5	
Net Block	740.9	724.1	769.3	802.6	
Capital WIP	5.2	7.3	7.7	8.0	
Non-Current Investments	150.0	178.0	195.8	395.8	
Long Term Loans &	14.1	14.7	15.0	15.3	
Other Non-Current Assets	102.1	102.4	102.4	102.4	
Inventories	7.1	8.5	8.1	9.5	
Debtor	511.0	508.3	661.6	774.0	
Cash	39.5	74.5	138.1	143.7	
Loan & Advance, Other CA	168.9	209.4	213.6	217.9	
Current Liabilities	284.8	273.4	284.2	304.3	
Trade Payables	75.9	85.1	91.6	107.2	
Other Current Liabilities	200.3	167.8	171.1	174.5	
Short Term Provisions	8.6	20.5	21.5	22.6	
Application of Funds	1,454.0	1,553.6	1,827.4	2,164.9	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	151.7	184.9	224.1	271.6
Cash per share	65.8	65.4	85.2	99.6
EPS	18.9	37.3	41.6	49.8
Cash EPS	30.4	48.7	51.6	60.9
DPS	2.0	2.0	2.0	2.0
Profitability & Operating Ratios				
EBITDA Margin (%)	9.3	12.6	11.9	12.0
PAT Margin (%)	5.1	8.1	8.0	8.2
Fixed Asset Turnover (x)	3.8	4.5	4.8	5.4
Inventory Turnover (Days)	0.9	0.9	0.8	0.8
Debtor (Days)	66.6	57.0	65.0	65.0
Current Liabilities (Days)	9.9	9.5	9.0	9.0
Return Ratios (%)				
RoE	12.9	20.5	18.8	18.6
RoCE	13.3	20.3	19.9	20.1
RoIC	13.0	21.8	21.6	21.4
Valuation Ratios (x)				
P/E	35.4	18.0	16.1	13.4
Price to Book Value	4.4	3.6	3.0	2.5
EV/EBITDA	19.5	11.9	10.8	9.1
EV/Sales	1.8	1.5	1.3	1.1
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.0	0.0	0.0
Interest Coverage (x)	6.3	23.0	150.9	2,996.7
Debt to EBITDA (x)	0.9	0.2	0.1	0.0
Current Ratio	2.2	2.5	2.3	2.0

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
APSEZ	830	1,000	BUY	1,68,635	21.9	28.7	43.2	33.8	34.7	29.0	22.5	21.2	18.4	12.7	9.5	11.5	16.3	10.7	12.5
Container Corporation	690	890	BUY	43,382	17.3	30.2	36.6	83.2	39.8	22.9	10.5	6.1	4.7	4.5	10.2	12.1	5.4	9.6	14.7
Transport Corp. of India	670	810	BUY	4,888	37.3	41.6	49.8	35.4	18.0	16.1	19.5	11.9	10.8	13.3	20.3	19.9	12.9	20.5	18.8
Gujarat Pipavav	86	110	BUY	4,158	4.1	5.6	6.7	21.1	15.4	12.9	8.0	6.7	5.7	12.1	15.7	18.6	8.6	11.7	13.8
TCI Express	1,880	2,195	BUY	7,196	26.2	33.5	40.0	80.8	71.9	56.2	59.2	53.6	41.3	36.3	31.9	33.4	29.5	26.1	26.6
Mahindra Logistics	545	610	BUY	3,908	5.2	9.0	14.9	105.4	60.9	36.7	18.7	14.1	10.7	12.2	33.1	38.4	6.3	10.1	14.6
BlueDart Express	7,420	8,000	HOLD	21,075	135.3	211.0	275.7	199.9	65.6	42.0	30.2	21.4	16.5	50.5	69.7	68.8	13.5	38.0	38.2
Gateway Distriparks	71	85	BUY	3,547	4.5	3.5	4.4	37.6	15.9	20.2	12.8	10.5	9.0	11.7	15.4	16.2	6.4	13.7	10.2

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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