Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Transport Corporation of India Ltd

Margin pressures dent Q2; yet growth path intact

Logistics	Sharekhan code: TCI
Reco/View: Buy ↔	CMP: Rs. 694
	Price Target: Rs. 850 ↔

↑ 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		↔	

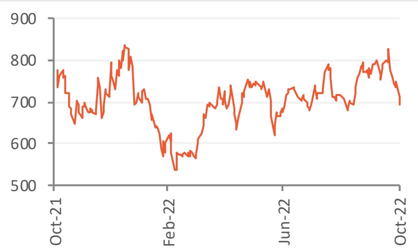
Company details

Market cap:	Rs. 5,379 cr
52-week high/low:	Rs. 858/529
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	69.0
FII	3.3
DII	11.8
Others	15.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.0	-6.4	1.4	-10.6
Relative to Sensex	-19.6	-11.5	-5.8	-12.5

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on TCI Ltd with an unchanged price target of Rs. 850, considering its long term sustainable growth trajectory driven by positive sectoral fundamentals and its multi-modal capabilities.
- TCI reported largely in-line cConsolidated revenues for Q2FY2023 were largely in line with estimates led by strong growth in freight and SCM businesses. However, OPM lagged due to weak margins in SCM and Seaways.
- The management retained topline and bottomline growth guidance of 10-15% y-o-y for FY2023 as Seaways is expected to report flat revenue y-o-y along with normalisation of OPM.
- Its capex plan of Rs. 300 crore remains unchanged although it is yet to zero in on a ship for acquisition, which is expected in Q4FY2023 or Q1FY2024.

Transport Corporation of India (TCI) reported largely in-line consolidated revenues although it lagged on the OPM front for Q2FY2023. Consolidated revenues rose by 13% y-o-y at Rs. 932 crore led by strong growth in SCM (up 27% y-o-y at Rs. 342 crore) followed by freight (up 16% y-o-y at Rs. 394 crore) while Seaways reported 9.5% y-o-y dip at Rs. 116 crore (three out of six ships were dry docked along with lower international revenues). Consolidated OPM at 10.3% (down 237 bps y-o-y) was lower than our estimate of 11.7% owing to dip in margins in SCM (down 96 bps y-o-y at 9.5%) and Seaways (down 448 bps y-o-y at 41.6%). Consequently, consolidated operating profit/net profit declined by 8%/4% y-o-y at Rs. 96 crore/Rs. 72 crore. The management retained its topline and bottomline growth guidance of 10-15% y-o-y for FY2023. Its capex plan of Rs. 300 crore remains unchanged although it is yet to zero in on a ship for acquisition.

Key positives

- Consolidated revenues rose 13% y-o-y led by strong growth in both freight and SCM businesses.
- Transystem JV reported a 76% y-o-y growth in revenues for H1FY2023 mirroring strong growth in auto segment.

Key negatives

- Seaways reported 9.5% y-o-y dip in revenues along with 448bps y-o-y contraction in OPM.
- SCM business OPM declined by 96bps y-o-y to 9.5% although it is expected to tread higher over the next two quarters.

Management Commentary

- The management retained its conservative topline and bottomline growth guidance of 10-15% y-o-y for FY2023. Revenues might grow by over 15% y-o-y but net profit is expected to grow at 10-15% y-o-y as Seaways OPM is coming off.
- The company expects the policy to provide growth to the logistics sector. The key takeaways from the NLP are 1) change in modal mix which would help reduce costs 2) Digitisation which would help formalisation and 3) Standardisation, which would result in better productivity.
- Although container prices have come down, ship prices have not come down yet. The company hopes to purchase ship in Q4FY2023 or Q1FY2024. It is looking to purchase 30000-35000 tonnage ship.

Revision in estimates – We have fine-tuned our revenues and operating profit estimates for FY2023-FY2024 while increased net profit estimates penciling lower effective tax rates.

Our Call

Valuation – Retain Buy with an unchanged price target of Rs. 850: TCI's multi-modal capabilities are expected to benefit from recently announced National Logistics Policy. It continues to invest in multi-modal network building and adding new businesses catering to chemicals, SAARC nations and the cold chain segment. The seaways division revenues are expected to remain flattish in FY2023 with gradual normalisation of OPM. However, the addition of one more ship would be keenly awaited and provide further fillip to its seaways division. We introduce our FY2025E earnings in this note. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain a Buy rating on the stock with an unchanged SOTP based target of Rs. 850.

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	FY22	FY23E	FY24E	FY25E
Revenue	3,256.7	3,720.0	4,135.3	4,552.0
OPM (%)	12.6	11.8	11.5	11.5
Adjusted PAT	289.6	327.8	352.7	383.0
% YoY growth	80.8	13.2	7.6	8.6
Adjusted EPS (Rs.)	37.5	42.4	45.6	49.6
P/E (x)	18.6	16.4	15.3	14.1
P/B (x)	3.7	3.1	2.6	2.2
EV/EBITDA (x)	13.3	12.3	11.4	10.4
RoNW (%)	22.3	20.7	18.6	17.1
RoCE (%)	17.5	16.6	14.8	13.9

Source: Company; Sharekhan estimates

Revenues in-line while OPM lags

Transport Corporation of India reported consolidated net revenues of Rs. 932 crore (up 13% y-o-y, up 3.2% q-o-q) which was marginally higher than our estimate. Revenues from the freight division was up 13.7% y-o-y (+1.3% q-o-q) at Rs. 469 crore, Supply chain management revenues were up 26% y-o-y (+18.5% q-o-q) at Rs. 358 crore although Seaways' revenues were down by 7.5% y-o-y (-18.6% q-o-q) at Rs. 124 crore. Consolidated OPM at 10.3% (-237bps y-o-y, -123 bps q-o-q) was lower than our estimate of 11.7%. Weak OPM led to consolidated operating profit decline of 8.2% y-o-y (down 7.8% q-o-q) at Rs. 96 crore, which was 11% lower than our estimates. Weak operational performance was partially offset by higher income from JV income. Consequently, consolidated net profit declined by 4.1% y-o-y (-6.9% q-o-q) at Rs. 72 crore, which was 9.5% lower than our estimates.

Key Conference call takeaways

- **Guidance:** The management retained its conservative topline and bottomline growth guidance of 10-15% y-o-y for FY2023. Revenues might grow by over 15% y-o-y, but net profit is expected to grow at 10-15% y-o-y as Seaways OPM is coming off.
- **National Logistics Policy:** The company expects the policy to provide growth to the logistics sector. The key takeaways from the NLP are 1) A change in the modal mix which would help reduce costs 2) Digitisation which would help formalisation and 3) Standardisation which would result in better productivity.
- **Freight:** Division's revenues grew by 16% y-o-y in Q2FY2023. Margins were largely maintained. It expects performance of the division to remain stable with stable RoCEs.
- **SCM:** The division's revenues grew by 27% y-o-y in Q2FY2023 led by strong push from auto segment (although two wheelers growth has not come back). EBITDA margins were slightly lower and are expected to catch up over the two quarters.
- **Seaways:** Dry docking of three ships took longer leading to higher costs. The lower number of ship availability led to lower revenues. Margins are normalising at 30-40%. The international operations like Myanmar were not there during Q2FY2023 as they were in Q2FY2022. The company expects revenues from Seaways to be the same as last year with marginal dip in profitability.
- **Joint Ventures:** The Concor JV reported marginal growth of 1.7% y-o-y and cold chain grew by 13.5% y-o-y during H1FY2023. For FY2023, Concor JV is expected to grow by 5-10% y-o-y while cold chain may grow by 20-30% y-o-y. The transhipment business registered exceptionally robust growth of 76% y-o-y in-line with the automobile sector's performance.
- **Capex:** The capex plan remains as it is. Excluding the ship purchase, capex for FY2023 is expected to be Rs. 125-150 crore. Including ship purchase, the capex would be Rs. 300 crore. Capex excluding purchase of ship or trucks would be self-funded.
- **Ship purchase:** Although container prices have come down, ship prices have not declined yet. The company hopes to purchase ship in Q4FY2023 or Q1FY2024. It is looking to purchase 30000-35000 tonnage ship.
- **Ship dry docking:** Dry docking related expense is estimated at Rs. 1.5-2 crore in Q2FY2023. However, all costs related to dry docking are capitalised which gets reflected in higher depreciation. Next year, only ship is planned for dry docking. Major dry docking for a ship happens within five years while moderate dry docking happens in 25 months.
- **Rail:** The company has increased four rakes per day compared to last year.

Results (Consolidated) Rs cr

Particulars	Q2FY2023	Q2FY2022	y-o-y%	Q1FY2023	q-o-q%
Net sales	**932.1**	**825.1**	**13.0%**	**902.9**	**3.2%**
Other income	7.4	2.9	152.4%	5.3	38.5%
Total income	939.5	828.1	13.5%	908.2	3.4%
Total expenses	836.1	720.6	16.0%	798.9	4.7%
Operating profit	**96.0**	**104.5**	**-8.2%**	**104.1**	**-7.8%**
Depreciation	30.0	25.6	17.1%	28.9	3.9%
Interest	2.5	3.3	-22.8%	2.3	10.0%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**70.8**	**78.5**	**-9.9%**	**78.2**	**-9.5%**
Taxes	11.6	9.6	20.5%	9.3	24.1%
PAT	59.2	68.9	-14.1%	68.8	-14.0%
Minority Interest/JV income	-13.2	-6.5	101.7%	-8.9	47.8%
Adjusted PAT	**72.3**	**75.4**	**-4.1%**	**77.7**	**-6.9%**
EPS (Rs.)	9.4	9.8	-4.1%	10.1	-6.9%
Margins					
OPM (%)	10.3%	12.7%	-237 bps	11.5%	-123 bps
NPM (%)	7.8%	9.1%	-138 bps	8.6%	-85 bps
Tax rate (%)	16.4%	12.3%	412 bps	11.9%	443 bps

Source: Company, 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 a 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 freight volume, domestic ports volume and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business led by user industries preference towards credible supply chain management in wake of the 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 the multi-modal logistics and the supply chain businesses 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, the 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 an unchanged price target of Rs. 850

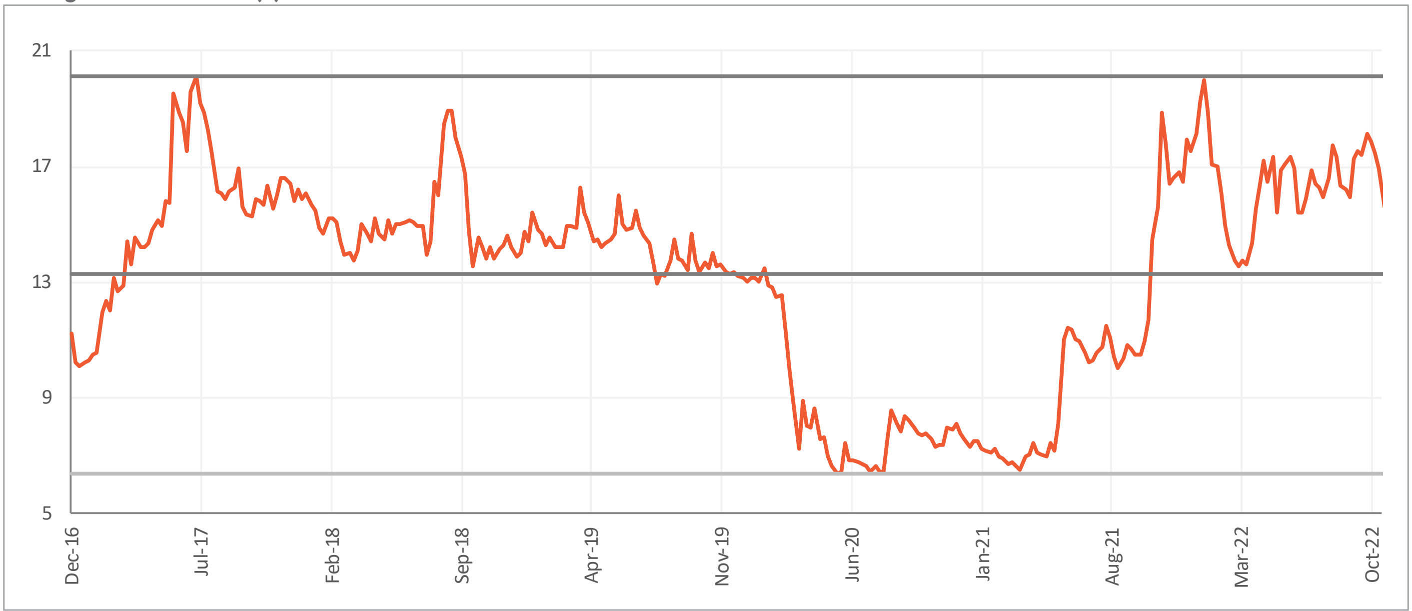
TCI's multi-modal capabilities are expected to benefit from recently announced National Logistics Policy. It continues to invest in multi-modal network building and adding new businesses catering to chemicals, SAARC nations and the cold chain segment. The seaways division revenues are expected to remain flattish in FY2023 with gradual normalisation of OPM. However, the addition of one more ship would be keenly awaited and provide further fillip to its seaways division. We introduce our FY2025E earnings in this note. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain a Buy rating on the stock with an unchanged SOTP based target of Rs. 850.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	12x EV/EBITDA on FY2024E	1097	143
SCM	14x EV/EBITDA on FY2024E	2420	315
Seaways	12x EV/EBITDA on FY2024E	2582	336
Less: Net Debt		-312	-41
Value of core verti-cals		6411	834
Transystem JV	1x P/B	117	15
Price target			**850**

Source: Company, Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TCI	16.4	15.2	12.3	11.4	3.1	2.6	20.7	18.6
TCI Express	45.8	37.4	33.1	26.9	11.9	9.3	27.7	28.2
Mahindra Logistics	73.8	44.2	14.2	11.4	5.5	4.9	8.6	12.8

Source: Company, 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 a 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

TCI has 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 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 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.

Key Risks

- Slowdown in the macroeconomy leading to weak logistics industry outlook.
- High concentration on 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 Pan-dey	Company Secretary & Compliance Of-ficer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC AMC	7.58
2	TCI Trading	6.42
3	Bang Nirmal Mishrilal	1.12
4	Agarwal Dharam Pal	1.07
5	Tata AMC	0.87
6	LIC MF AMC	0.85
7	IDFC AMC	0.83
8	Sundaram AMC	0.81
9	Dimensional Fund	0.79
10	Blackrock Inc	0.07

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.