

Better product mix leading to margin expansion...

Transport Corporation (TCI) reported a strong set of Q3FY21 numbers. Revenues grew strongly QoQ (up 17%) and YoY (10.5%) to ₹ 715 crore. SCM segment reported strong growth both QoQ and YoY (up 19% QoQ, 24% YoY), followed by the freight division (up 18% QoQ, 2% YoY) and shipping division (up 11% QoQ, 5% YoY). EBITDA margins expanded 86 bps YoY to 10.5% mainly due to higher gross margins (19.5% vs. 19% in Q3FY20) and lower employee to sales ratio (5% vs. 5.7% in Q3FY20). Resultant EBITDA grew 20% YoY to ₹ 75 crore. Further, PAT grew 25% YoY to ₹ 40 crore (exceptional expense of ₹ 10 crore impacted profitability to certain extent).

Digitisation of firms leading to acceleration of growth

Post-pandemic, companies are reviewing the agility and resilience of their supply chain, in response to the changes in the buying habits of customers (greater online shopping). It requires usage of specialised warehousing and cold storage, along with time-bound movement of cargo, which can be tracked via GPS, minimisation of human contact, etc. From planning to execution, TCI with its 900 IT enabled owned offices, 9000 trucks and trailers, seven coastal ships and 12 million square feet of warehousing space, brings in solutions such as seamless multi-modal connectivity for customers along with improved supply chain efficiency (with greater usage of data analytics, automation in warehouses, real-time access to data for customers and greater customer engagement via 24*7 cell, etc).

Surface freight, shipping post stronger growth

E-Way bill generation saw healthy uptick during the quarter, growing 21%, 8%, 16% during October, November and December, respectively (remained well above pre-Covid 5.5 crore run rate). 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, pent up demand and increased movements of good and is expected to revive the sector. Shipping sector saw its operation ramp up (better fleet utilisation) due to higher cargo volumes at ports.

Valuation and Outlook

TCI has continued to improve its working capital position (lower receivables), which led to further debt reduction in Q3 (D/E at 0.3). Improvement in product mix (higher share of LTL and SCM) has further led to expansion in gross margins, which together with higher asset turnover is expected to achieve return ratios of 15-16% (in the medium to long term). TCI has shown focus on lowering operational costs and an effective capital allocation management. On an SOTP basis, we value the stock at ₹ 320/share and maintain our **BUY** rating on the stock (earlier target of ₹ 280/share).



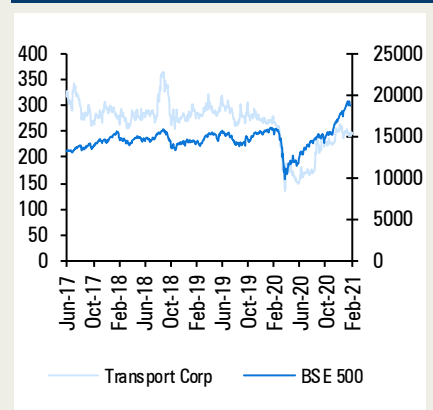
Particulars

Market Cap. (₹ cr)	1,824
Total Debt (FY20) (₹ Cr)	368.6
Cash and Investment (FY20) (₹)	25.9
EV (₹ Crore)	2257.1
52 week H/L	280/122
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

Key risks to our call

- 1) Continued momentum the prices of diesel
- 2) Slowdown in auto sector

Price Performance



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Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR
Revenues (₹ crore)	2,753.7	2,717.8	2,740.5	3,201.5	3,741.4	8.0
EBITDA (₹ crore)	249.5	240.5	265.8	320.2	381.6	10.3
Adjusted Net Profit (₹ crore)	144.4	142.4	156.5	214.7	264.2	14.9
EPS (₹)	18.8	18.6	20.4	28.0	34.5	
P/E (x)	13.2	13.4	12.2	8.9	7.2	
Price / Book (x)	2.1	1.9	1.6	1.4	1.2	
EV/EBITDA (x)	8.9	9.0	7.6	6.2	4.9	
RoCE (%)	14.2	12.4	13.3	15.1	16.2	
RoNW (%)	16.3	14.0	13.4	15.7	16.2	

Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	715.2	645.9	647.3	10.5	612.2	16.8	QoQ and YoY sharp upmove in revenues due to uptick in e-commerce, automotive, certain capital goods and other sectors
Operating Expenses	576.0	526.4	524.1	9.9	497.6	15.8	
Employee Expenses	35.9	32.9	37.0	-3.0	32.9	9.2	
Administrative & Oth Expenses	27.8	25.8	23.5	18.7	22.7	22.6	
Total Expense	639.8	585.2	584.6	9.4	553.2	15.6	
EBITDA	75.4	60.7	62.7	20.3	59.0	27.8	
EBITDA Margin (%)	10.5	9.4	9.7	86 bps	9.6	91 bps	Margins better than estimates due to better product mix and lower employee costs to sales ratio
Depreciation	22.0	19.7	20.4	7.9	19.8	11.3	
Interest	5.8	7.2	8.4	-31.0	6.4	-8.6	
Other Income	8.6	6.6	5.8	50.3	7.1	22.0	
Exceptional Gain/Loss	-10.4	0.0	0.0	0.0	0.0	0.0	Booked an impairment loss due to change in classification of a ship to held for sale
PBT	45.8	40.5	39.6	15.6	39.9	14.7	
Total Tax	5.8	7.3	7.5	-23.2	7.9	-27.5	
PAT	40.1	33.2	32.1	24.6	32.0	25.2	In spite of exceptional expense, PAT grew above estimates
Key Metrics	Q3FY21	Q3FY21E	Q3FY20	YoY	Q2FY21	QoQ	
Freight Division	327.8	304.3	320.3	2.3	278.1	17.9	Operations have ramped up to 85-90% amid increased movement of goods, pent up demand and festive related demand
Supply Chain Solutions	292.9	248.6	236.8	23.7	246.7	18.7	Revival in automotive demand and growth in e-commerce and FMCG
Seaways	103.8	98.9	98.9	4.9	93.2	11.3	Higher growth due to better cargo volumes at port

Source: Company, ICICI Direct Research

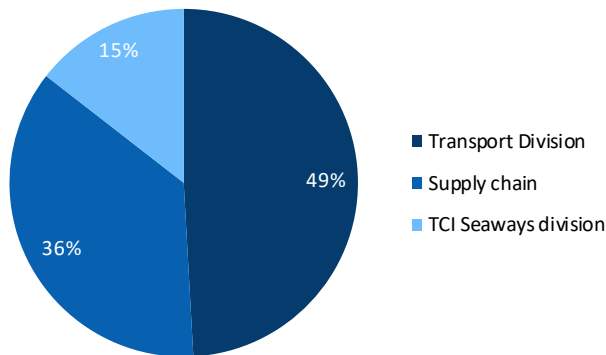
Exhibit 1: Change in estimates

(₹ Crore)	FY21E				FY22E			FY23E	Comments
	FY20	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	2,717.8	2,582.8	2,740.5	6.1	2,991.1	3,201.5	7.0	3,741.4	PAT estimates improved due to strong growth seen in Q3FY21
EBITDA	240.5	237.6	265.8	11.9	284.2	320.2	12.7	381.6	
EBITDA Margin (%)	8.9	9.2	9.7	50 bps	9.5	10.0	50 bps	10.2	Margin expectation improved due to strong performance in Q3FY21 on the margin front
PAT	142.4	141.9	156.5	10.3	182.0	214.7	17.9	264.2	
EPS (₹)	18.6	18.5	20.4	10.3	23.8	28.0	17.9	34.5	

Source: Company, ICICI Direct Research

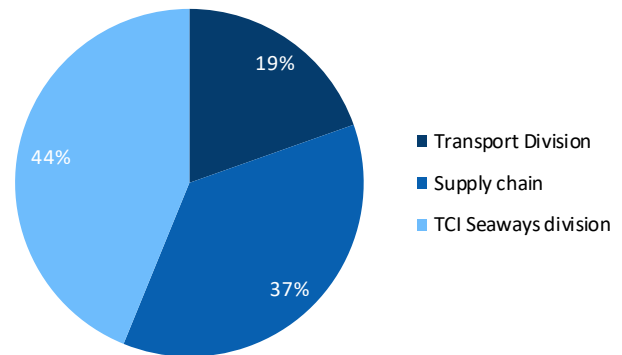
Key Metrics

Exhibit 2: Segmental revenues (standalone) - FY20



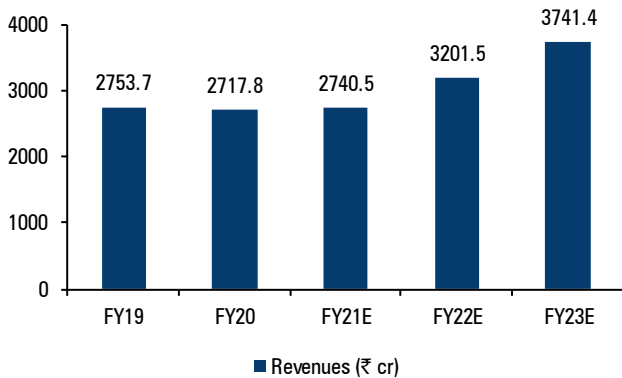
Source: ICICI Direct Research, Company

Exhibit 3: Segmental EBITDA (standalone) – FY20



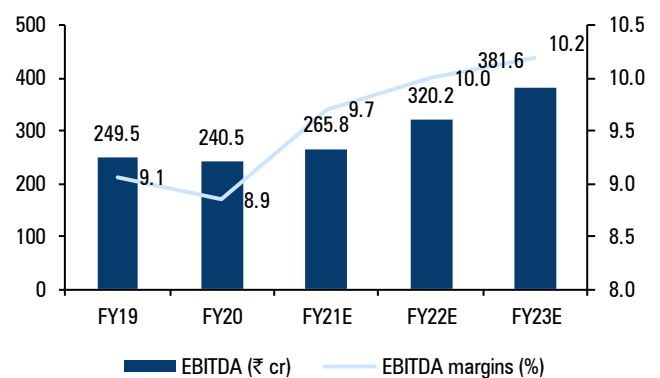
Source: ICICI Direct Research, Company

Exhibit 4: Revenue likely to grow at 11% (FY20-23) CAGR



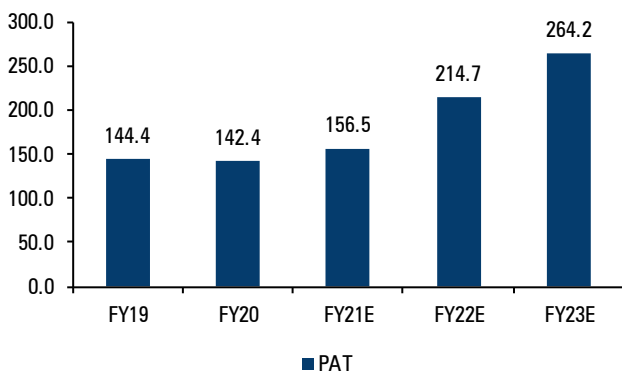
Source: ICICI Direct Research, Company

Exhibit 5: EBITDA expected to grow at 17% CAGR (FY20-23)



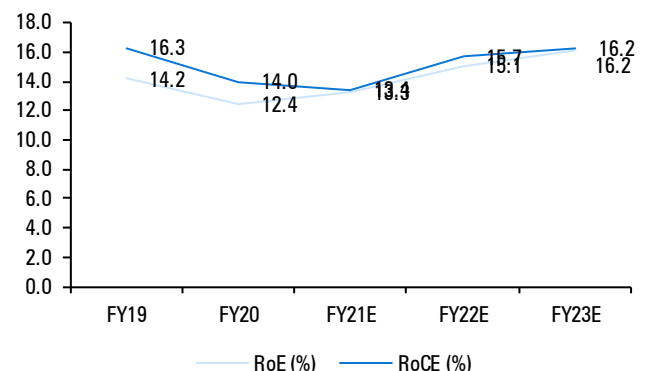
Source: ICICI Direct Research, Company

Exhibit 6: PAT expected to grow at 23% CAGR (FY20-23)



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios



Source: Company, ICICI Direct Research

Exhibit 8: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2753.7	17.2	18.8	17.2	13.2	8.9	16.3	14.2
FY20	2717.8	-1.3	18.6	-1.4	13.4	9.0	14.0	12.4
FY21E	2740.5	0.8	20.4	9.9	12.2	7.6	13.4	13.3
FY22E	3201.5	16.8	28.0	37.2	8.9	6.2	15.7	15.1
FY23E	3741.4	16.9	34.5	23.1	7.2	4.9	16.2	16.2

Source: Company, ICICI Direct Research

Valuation & Outlook

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Exhibit 9: SOTP valuation

Segment	Standalone EBITDA (FY23E) ₹ crore	EV (x)	EV (₹ crore)
Freight	63.7	4	255
Supply Chain	145.3	8	1141
Seaways	171.1	5	856
Enterprise Value			2251
Net Debt (FY23E)			-127
Market Value (Ex-TCI-Concor, Transystem)			2378
Subsidiary	Revenues (FY23E) ₹ crore	Revenue multiple	₹ crore
JV:TCI-Concor (51% stake)	198	0.4	79
Joint Venture	Revenues (FY23E) ₹ crore	Revenue multiple	₹ crore
JV:Transystem (49% stake)	198	0.4	79
Holding company discount (50%)			79
Target Market Value			2457
No of Shares			7.7
Per Share Value			320

Source: ICICI Direct Research

Financial Summary

Exhibit 10: Profit & Loss Statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	2,717.8	2,740.5	3,201.5	3,741.4
Growth (%)	-1.3	0.8	16.8	16.9
Operating expense	2,214.3	2,233.5	2,593.2	3,030.5
Manpower Cost	157.2	142.5	160.1	179.6
Admin & other expense	105.8	98.7	128.1	149.7
Total Expense	2,477.3	2,474.6	2,881.4	3,359.8
EBITDA	240.5	265.8	320.2	381.6
Growth (%)	-3.6	10.5	20.4	19.2
Depreciation	82.5	87.1	98.4	109.6
EBIT	158.0	178.7	221.8	272.0
Interest	34.3	25.5	17.0	14.3
Other Income	20.1	19.2	22.4	26.2
PBT	143.8	172.4	227.2	283.9
Growth (%)	-6.7	19.8	31.8	25.0
Tax	15.9	31.0	40.9	51.1
Reported PAT	127.9	141.3	186.3	232.8
Growth (%)	5.8	10.5	31.8	25.0
Share of Profit from JV	25.2	27.7	30.4	33.5
Minority Interest	0.8	0.8	0.8	0.8
Extraordinary Item	-9.9	-10.4	0.0	0.0
Adjusted PAT	142.4	157.7	215.9	265.5
EPS	18.6	20.6	28.2	34.6

Source: ICICI Direct Research

Exhibit 11: Cash flow Statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	142.4	156.5	214.7	264.2
Add: Depreciation	82.5	88.6	99.9	111.1
Add: Interest Expense	34.3	25.5	17.0	14.3
Cash Profit	259.2	270.7	331.5	389.6
Increase/(Decrease) in CL	-2.9	32.9	-123.7	-101.2
(Increase)/Decrease in CA	-13.6	0.2	23.0	17.5
Others	9.6	0.0	0.0	0.0
CF from Operating Activities	252.3	303.8	230.8	305.9
Purchase of Fixed Assets	-133.6	-121.1	-151.1	-151.2
(Inc)/Dec in Investments	-20.1	-13.6	-15.0	-16.5
Others	1.0	0.6	0.6	0.6
CF from Investing Activities	-152.8	-134.1	-165.5	-167.0
Inc/(Dec) in Loan Funds	-45.6	-100.0	-80.0	-30.0
Inc/(Dec) in Share Capital	0.0	0.0	0.0	0.0
Less: Interest Expense	-34.3	-25.5	-17.0	-14.3
Others	-9.2	-9.2	-9.2	-9.2
CF from financing activities	-89.1	-134.7	-106.2	-53.5
Change in cash Eq.	10.4	35.0	-40.9	85.4
Op. Cash and cash Eq.	15.5	25.9	60.9	20.0
Cl. Cash and cash Eq.	25.9	60.9	20.0	105.5

Source: ICICI Direct Research

Exhibit 12: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	15.4	15.4	15.4	15.4
Reserves & Surplus	1,008.5	1,155.8	1,361.3	1,616.4
Shareholder's Fund	1,023.9	1,171.2	1,376.7	1,631.7
Loan Funds	368.6	268.6	188.6	158.6
Deferred Tax Liability	30.2	30.8	31.4	32.0
Minority Interest	5.7	5.7	5.7	5.7
Govt Grant	1.9	1.9	1.9	1.9
Long Term Provisions	3.1	3.1	3.1	3.1
Source of Funds	1433.4	1481.3	1607.4	1833.0
Application of Funds				
Gross Block	1,061.7	1,181.7	1,331.7	1,481.7
Less: Acc. Depreciation	313.4	402.0	501.9	613.0
Net Block	748.3	779.7	829.8	868.7
Capital WIP	21.6	22.7	23.8	25.0
Non-Current Investments	135.4	148.9	163.8	180.2
Long Term Loans &	4.3	4.3	4.4	4.5
Other Non-Current Assets	66.4	66.4	66.4	66.4
Inventories	6.6	6.8	7.0	8.2
Debtor	487.3	450.5	570.1	666.3
Cash	25.9	60.9	20.0	105.5
Loan & Advance, Other CA	187.7	191.4	195.3	199.2
Current Liabilities	250.0	250.2	273.2	290.7
Trade Payables	63.9	60.1	78.9	92.3
Other Current Liabilities	175.9	179.4	183.0	186.7
Short Term Provisions	10.2	10.7	11.3	11.8
Application of Funds	1,433.4	1,481.3	1,607.4	1,833.0

Source: ICICI Direct Research

Exhibit 13: Key Ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	133.2	152.4	179.1	212.3
Cash per share	63.6	58.8	74.4	86.9
EPS	18.6	20.4	28.0	34.5
Cash EPS	27.5	29.8	37.2	44.7
DPS	1.8	1.0	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	8.9	9.7	10.0	10.2
PAT Margin (%)	4.7	5.1	5.8	6.2
Fixed Asset Turnover (x)	3.6	3.5	3.9	4.3
Inventory Turnover (Days)	0.9	0.9	0.8	0.8
Debtor (Days)	65.4	60.0	65.0	65.0
Current Liabilities (Days)	8.6	8.0	9.0	9.0
Return Ratios (%)				
RoE	14.0	13.4	15.7	16.2
RoCE	12.4	13.3	15.1	16.2
RoIC	12.0	13.4	14.8	16.6
Valuation Ratios (x)				
P/E	13.5	12.2	8.9	7.3
Price to Book Value	1.9	1.6	1.4	1.2
EV/EBITDA	9.0	7.6	6.2	4.9
EV/Sales	0.8	0.7	0.6	0.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.4	0.2	0.1	0.1
Interest Coverage (x)	4.6	6.9	13.0	19.0
Debt to EBITDA (x)	1.5	1.0	0.6	0.4
Current Ratio	2.9	3.2	2.5	2.2

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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