

# TRANSPORT CORPORATION

## RESULT UPDATE

### KEY DATA

<b>Rating</b>	<b>BUY</b>
Sector relative	Neutral
Price (INR)	257
12 month price target (INR)	342
Market cap (INR bn/USD bn)	20/0.3
Free float/Foreign ownership (%)	33.3/1.6

#### What's Changed

Target Price	↑
Rating/Risk Rating	—

### QUICK TAKE

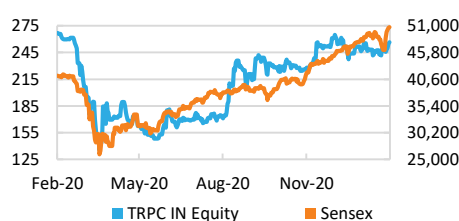
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

### FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	27,178	26,336	31,730	34,520
EBITDA	2,405	2,479	3,235	3,644
Adjusted profit	1,531	1,583	1,930	2,239
Diluted EPS (INR)	19.8	20.5	25.0	29.0
EPS growth (%)	5.4	3.4	21.9	16.0
RoAE (%)	14.9	13.9	16.0	16.4
P/E (x)	13.0	12.5	10.3	8.9
EV/EBITDA (x)	9.7	9.4	7.0	5.9
Dividend yield (%)	0.8	0.8	1.0	1.2

### PRICE PERFORMANCE



#### Explore:



Financial model



Podcast



Corporate access



Video

## Geared up

Transport Corporation of India (TCI) posted record-high revenue (up 11% YoY), margin improvement across segments and an uptick in earnings of 50% YoY, all beating our estimates. The supply chain segment sprung a positive surprise with sales up 23% YoY on the back of auto demand revival and growth in FMCG/e-commerce.

We are bullish on TCI; its improving business mix should lift the margin and returns profile over the next three–four years, which can drive a re-rating. Moreover, the stock is trading at 10x FY22E PE, which provides ample margin of safety. Factoring in the strong Q3FY21 and better demand outlook, we are raising FY21/22/23E EPS by 25/8/10%. Retain 'BUY' with a revised TP of INR342 (from INR285).

### Strong performance; record-high revenue

TCI posted a strong Q3FY21 with record-high revenue (up 11% YoY) and adjusted earnings up 50% YoY, beating our estimates. EBITDA margin expanded across segments and came in at 10.5% (up 80bps YoY). The freight division's revenue edged up 2% YoY, in line with the industry, as recovery coincided with festive demand. Freight margin came in at 4.9% (4.2% in Q3FY20). The supply chain division surprised positively, with its revenue jumping 23% YoY driven by auto demand revival and growth in FMCG/e-commerce. The Seaways division's Q3FY21 revenue increased 5% YoY with margin expanding 50bps YoY. TCI's JV with Container Corporation, called TCI Concor, registered top-line growth of 55% YoY.

### Business mix change to drive rerating

Our investment rationale for TCI is based on the improvement in its underlying business mix over the next three–four years. The company is targeting higher-margin LTL mix of 40% in the freight division. The supply chain division is part of the fast-growing 3PL category, which is expected to log a 13–15% CAGR over the next five–seven years. TCI also plans to continue adding capacity in the Seaways division, which should aid margin improvement. Overall, we believe TCI's focus on establishing multi-modal capabilities will reflect in its growth over the next four–five years.

### Outlook and valuation: Retain 'BUY'

Factoring in a strong Q3FY21 performance and better demand outlook, we are revising up FY21/22/23E EPS by 25/8/10%. We retain 'BUY' with a revised SoTP-based target price of INR342 (up from INR285), implying an FY22E PE of 13x. The stock at 10x FY22E PE provides ample margin of safety.

### Financials

Year to March	Q3FY21	Q3FY20	% Change	Q2FY21	% Change
Net Revenue	7,152	6,473	10.5	6,122	16.8
EBITDA	754	627	20.3	590	27.8
Adjusted Profit	482	321	50.1	320	50.8
Diluted EPS (INR)	6.3	4.2	50.1	4.2	50.7

## Financial Statements

### Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	27,178	26,336	31,730	34,520
Cost of Goods Sold	22,143	21,484	25,657	27,809
Employee costs	1,572	1,394	1,669	1,802
Other expenses	1,058	978	1,170	1,265
EBITDA	2,405	2,479	3,235	3,644
Depreciation	825	883	949	997
Less: Interest expense	343	275	285	316
Add: Other income	201	334	193	231
Profit before tax	1,438	1,655	2,194	2,563
Prov for tax	159	249	484	566
Less: Other adjustment	153	96	220	242
Reported profit	1,432	1,502	1,930	2,239
Less: Excp.item (net)	99	82	0	0
Adjusted profit	1,531	1,583	1,930	2,239
Diluted shares o/s	77	77	77	77
Adjusted diluted EPS	20	20	25	29
DPS (INR)	2.0	2.1	2.6	3.1
Tax rate (%)	11.1	15.1	22.1	22.1

### Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
EBITDA margin (%)	8.9	9.4	10.2	10.6
PBT growth (% YoY)	(6.7)	15.1	32.5	16.8
Net profit margin (%)	5.6	6.0	6.1	6.5
Revenue growth (% YoY)	(1.3)	(3.1)	20.5	8.8
EBITDA growth (% YoY)	(3.6)	3.1	30.5	12.7
Asset turnover (X)	2.0	1.8	1.9	1.9
Adj. profit growth (%)	5.4	3.4	21.9	16.0
EBIT margin (%)	5.8	6.1	7.2	7.7

### Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(4.0)	7.0	7.0
Repo rate (%)	4.4	3.0	4.0	4.0
USD/INR (average)	70.7	75.0	73.0	73.0
Freight margin (%)	3.9	4.0	4.0	4.0
SCM margin (%)	9.8	9.9	11.0	11.0
Real. per DWT (INR)	85,000	85,000	85,000	85,000
Freight div. (% YoY)	3.3	(12.3)	18.4	4.6
SCM growth(% YoY)	(8.9)	1.0	20.0	11.0
Seaways (% YoY)	3.5	(0.2)	33.0	11.6

### Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	13.0	12.5	10.3	8.9
Price/BV (x)	1.9	1.8	1.6	1.4
EV/EBITDA (x)	9.7	9.4	7.0	5.9
Dividend yield (%)	0.8	0.8	1.0	1.2

Source: Company and Edelweiss estimates

### Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	154	154	154	154
Reserves	10,085	11,146	12,611	14,323
Shareholders funds	10,239	11,299	12,765	14,477
Minority interest	57	47	47	47
Borrowings	3,720	3,985	4,035	4,085
Trade payables	639	561	677	736
Other liab & prov	2,159	1,745	1,745	1,745
Total liabilities	16,833	17,657	19,288	21,109
Net block	7,713	8,188	8,443	8,651
Intangible assets	5	6	6	6
Capital WIP	216	216	216	216
Total fixed assets	7,933	8,410	8,665	8,873
Non current inv	1,354	1,619	1,619	1,619
Cash/cash equivalent	259	463	1,247	2,375
Sundry debtors	4,873	4,750	5,402	5,883
Loans & advances	225	233	233	233
Other assets	1,717	1,714	1,655	1,658
Total assets	16,833	17,657	19,288	21,109

### Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	1,432	1,502	1,930	2,239
Add: Depreciation	825	883	949	997
Interest (net of tax)	230	184	191	212
Others	(81)	(1,196)	(319)	(369)
Changes in WC	117	535	(477)	(426)
Operating cash flow	2,523	1,907	2,274	2,652
Less: Capex	(1,321)	(1,505)	(1,204)	(1,204)
Free cash flow	1,202	402	1,069	1,448

### Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	14.9	13.9	16.0	16.4
RoCE (%)	13.1	13.2	15.4	16.2
Receivable days	67	67	58	60
Payable days	9	8	7	7
cash conversion cycle	59	60	52	53
Working cap (% sales)	15.9	17.8	16.3	16.2
Gross debt/equity (x)	0.4	0.4	0.3	0.3
Net debt/equity (x)	0.3	0.3	0.2	0.1
Interest coverage (x)	4.6	5.8	8.0	8.4

### Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	5.4	3.4	21.9	16.0
RoE (%)	14.9	13.9	16.0	16.4
EBITDA growth (%)	(3.6)	3.1	30.5	12.7
Payout ratio (%)	10.6	11.0	10.6	10.6

# TRANSPORT CORPORATION

Exhibit 1: Quarterly snapshot (INR mn)

Year to March	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	YTD21	FY21E	FY22E
<b>Revenue</b>	<b>7,152</b>	<b>6,473</b>	<b>10.5</b>	<b>6,122</b>	<b>16.8</b>	<b>16,554</b>	<b>23,984</b>	<b>29,026</b>
Operating expenses	5,760	5,241	9.9	4,976	15.8	13,323	19,331	23,180
Employee benefit expenses	359	370	(3.0)	329	9.2	977	1,338	1,605
Others	278	235	18.7	227	22.6	631	917	1,100
Total expenditure	6,398	5,846	9.4	5,532	15.6	14,931	21,586	25,885
<b>EBITDA</b>	<b>754</b>	<b>627</b>	<b>20.3</b>	<b>590</b>	<b>27.8</b>	<b>1,623</b>	<b>2,398</b>	<b>3,141</b>
Depreciation	220	204	7.9	198	11.3	613	835	901
<b>EBIT</b>	<b>534</b>	<b>423</b>	<b>26.3</b>	<b>392</b>	<b>36.2</b>	<b>1,010</b>	<b>1,563</b>	<b>2,240</b>
Interest	58	84	(31.0)	64	(8.6)	192	251	258
Other income	86	58	50.3	71	22.0	246	334	193
Add: Exceptional items	104	0	N/A	0	N/A	104	104	0
<b>Profit Before Tax</b>	<b>458</b>	<b>396</b>	<b>15.6</b>	<b>399</b>	<b>14.7</b>	<b>960</b>	<b>1,542</b>	<b>2,175</b>
Less: Provision for Tax	58	75	N/A	79	(27.5)	141	247	479
<b>Reported Profit</b>	<b>401</b>	<b>321</b>	<b>24.6</b>	<b>320</b>	<b>25.2</b>	<b>819</b>	<b>1,294</b>	<b>1,696</b>
<b>Adjusted Profit</b>	<b>482</b>	<b>321</b>	<b>50.1</b>	<b>320</b>	<b>50.7</b>	<b>901</b>	<b>1,294</b>	<b>1,696</b>
Adjusted Diluted EPS	6.3	4.2	50.1	4.2	50.7	11.7	16.9	22.1
P/E (x)							13.2	10.3
<b>As % of net revenues</b>								
Operating expenses	80.5	81.0		81.3		80.5	80.6	79.9
Staff expenses	5.0	5.7		5.4		5.9	5.6	5.5
Other expenses	3.9	3.6		3.7		3.8	3.8	3.8
EBITDA	10.5	9.7		9.6		9.8	10.0	10.8
Net profit	6.7	5.0		5.2		5.4	5.4	5.8

Source: Company, Edelweiss Research

## Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 12 million square feet of warehousing space.

## Investment Theme

We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for ~15% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential of TCIL's 3PL segment by at least 25-30%.

## Key Risks

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis.

Any downfall in trucking freight rates, particularly due to aggressive pricing by PE backed transporters can impact the profitability of TCI adversely.

## Additional Data

### Management

CEO	Vineet Agarwal (MD)
CFO	Ashish Tiwari
COO	
Other	
Auditor	Brahmayya & Co.

### Holdings – Top 10\*

	% Holding		% Holding
HDFC AMC	6.36	Dimensional Fd.	0.91
HDFC Trustee	3.11	Tata AMC	0.83
C. Robeco AMC	2.81	GIC AMC	0.60
IDFC AMC	2.64	JP Morgan	0.51
Sundaram AMC	1.07	LIC Nomura MF	0.46

\*Latest public data

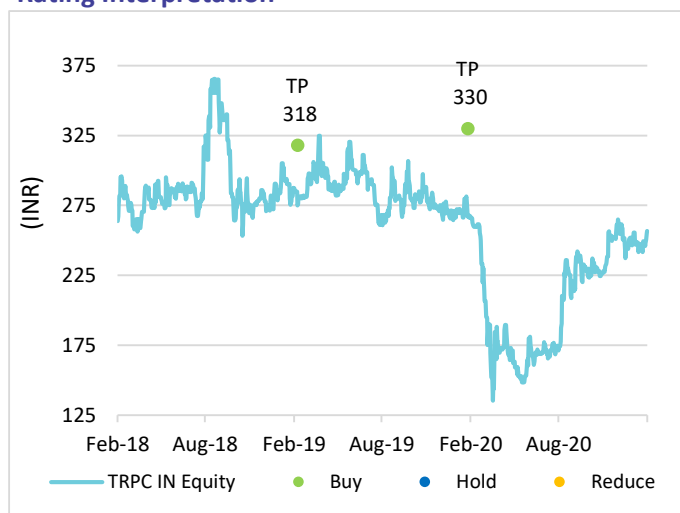
### Recent Company Research

Date	Title	Price	Reco
04-Nov-20	Going strong; <i>Result Update</i>	226.4	Buy
13-Aug-20	Transport Corporation of India - <i>Result ; Result Update</i>	210	Buy
04-Jun-20	Transport Corporation of India - <i>Result ; Result Update</i>	165	Buy

### Recent Sector Research

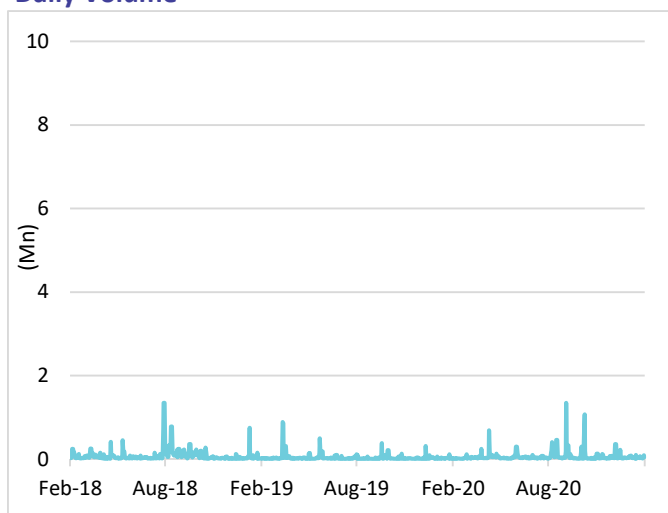
Date	Name of Co./Sector	Title
30-Jan-21	Mahindra Logistics	Back in the fast lane; <i>Result Update</i>
28-Jan-21	Blue Dart Express	An over-the-boundary hit; <i>Result Update</i>
25-Jan-21	Blue Dart Express	Right levers at play; <i>Company Update</i>

### Rating Interpretation



Source: Bloomberg, Edelweiss research

### Daily Volume



Source: Bloomberg

### Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	164	64	14	242
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	195	52	4	251

\* stocks under review

### Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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