Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Transport Corporation of India Ltd

Seaways continue to drive outperformance

Logistics	Sharekhan code: TCI
Reco/View: Buy ↔	CMP: Rs. 724	Price Target: Rs. 855 ↑

↑ 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		↔	

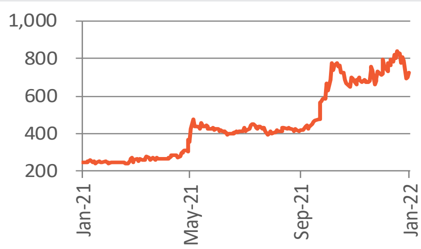
Company details

Market cap:	Rs. 5,592 cr
52-week high/low:	Rs. 858 / 237
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	2.3
DII	12.6
Others	18.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	13.5	74.2	190.7
Relative to Sensex	1.5	18.0	65.0	168.5

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on TCI Ltd with a revised price target of Rs. 855, led by upwardly revised estimates and valuation multiples.
- TCI reported strong beat on net earnings in Q3FY2022 led by sustained outperformance by Seaways division. SCM continued to be weak affected by chip shortages in Auto.
- The management retained revenue and net profit growth guidance for FY2022. New ship addition stays postponed due to inflated prices.
- Borrowings reduced by Rs. 33 crore to just Rs. 50 crore with cash in hand at Rs. 50 crore. Lower capex requirement and strong OCFs to increase cash position going ahead.

Transport Corporation of India (TCI) reported a strong beat on net earnings for Q3FY2022 led by sustained strong performance in Seaways. The consolidated revenues grew by 3.8% y-o-y to Rs. 838 crore led by freight segment (revenues up 8% y-o-y, pent-up demand and inventory restocking) and seaways (up 46% y-o-y, higher freight rates and high value return cargo from Myanmar). However, supply chain management, (down 10% y-o-y) underperformed due to continued semi-conductor shortages in Auto and lower growth in consumer goods. Consolidated OPM at 13% (up 316bps y-o-y) was higher than estimate led by seaways (up over 1000bps y-o-y). Strong operational performance led to 37% y-o-y and 57% y-o-y rise in consolidated operating profit and net profit respectively. The management retained FY2022 guidance.

Key positives

- Strong outperformance on OPM led by exceptional margins in seaways continue.
- Debt further reduces by Rs. 33 crore to Rs. 50 crore with cash in hand at Rs. 50 crore.
- Freight revenues up 8% y-o-y with improvement in margins both y-o-y and q-o-q.

Key negatives

- SCM business continue to be affected by chip shortages in auto leading to 10% y-o-y decline in net revenues.
- Concor JV revenues declined by 26% y-o-y for Q3FY2022.

Management Commentary

- Management retained revenues and net profit growth guidance for FY2022 to 15-20% and 35-40%.
- The SCM business is hitting lowest points and should see growth going ahead.
- Seaways strong performance may sustain during Q4FY2022.
- Capex related to purchase of ship stands deferred due to inflated cost.

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. 855: TCI is expected to benefit from the logistics sector's growth tailwinds led by GST (business moving towards the organised sector), 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. 855 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	3,295.0	3,646.7	4,036.6
OPM (%)	9.3	12.5	10.9	11.1
Adjusted PAT	160.2	297.9	261.2	288.5
% YoY growth	5.2	86.0	(12.3)	10.5
Adjusted EPS (Rs.)	20.9	38.5	33.8	37.3
P/E (x)	34.7	18.8	21.4	19.4
P/B (x)	4.7	3.8	3.3	2.9
EV/EBITDA (x)	21.4	13.6	14.0	12.5
RoNW (%)	14.6	22.8	16.7	15.9
RoCE (%)	10.1	18.1	13.7	13.3

Source: Company; Sharekhan estimates

Seaways continue to drive overall operational outperformance

Transport Corporation of India (TCI) reported strong results for Q3FY2022 driven by strong revenue growth and margin expansion in its Seaways business y-o-y. The consolidated revenues grew by 3.8% y-o-y to Rs. 838 crore (up 1.5% q-o-q) led by freight segment (revenues up 8% y-o-y, pent-up demand and inventory restocking) and seaways (up 46% y-o-y, higher freight rates and high value return cargo from Myanmar). However, supply chain management, (down 10% y-o-y) underperformed due to continued semi-conductor shortages in Auto and lower growth in consumer goods. Consolidated OPM at 13% (up 316bps y-o-y) was higher than estimate led by seaways (up over 1000bps y-o-y). The operating margins in freight was up 43bps y-o-y and 49bps q-o-q at 4.9%. However, SCM reported almost flat margins y-o-y and 27bps decline q-o-q at 10.2%. Overall, strong operational performance led to 37% y-o-y and 57% y-o-y rise in consolidated operating profit and net profit repectively.

Management retained FY2022 guidance

The management retained its revenue growth guidance of 15-20% y-o-y and bottom line guidance of 35-40% y-o-y. The Seaways division is expected to maintain strong performance with return cargo from Myanmar expected to continue till March 2022 and higher freight rates. SCM business is expected to revive with easing of chip shortages in Auto sector. As per management, the Auto OEMs expect growth reviving from Q1FY2023. In freight, the company expects to improve operating margins along with improvement in RoCE going ahead. The company expects GST compliance in the industry along with its strong pan-India network to aid in grabbing market share from unorganized players. The company continue to defer capex for purchase of ship as current rates are exponentially high (up 3x to 4x).

Key Conference Call takeaways -

- **Freight:** The freight business grew by 8% led by pent-up demand and inventory stocking. Margins were maintained while ROCE are expected to continue to improve.
- **SCM:** The segment saw negative growth on account of crisis faced by auto industry, covid third wave impacting demand, warehouses challenges in consumer durables while Agri and tractor movement was less. Margins were maintained. The SCM business is hitting lowest points and should be on positive growth going ahead. As per feedback from OEMs, Q1FY2023 should see growth.
- **Seaways:** The business grew by 50% with margins doubling y-o-y. The business and margins were driven by availability of return cargo from Myanmar. During Q3, two ships were dry docked one after another. The Myanmar business would be there till 31st March 2022. Two ships would go for dry docking in Q4FY2022 but it would maintain the segment margins. Two ships would go for dry docking in FY2023.
- **JVs:** Concor JV saw slightly negative growth. Cold chain grew by 78%. Transystem grew by 51%. Toyota doing well which helped achieve growth in Transystem.
- **Outlook:** The company-maintained revenue and profitability guidance. The capex related to shipping stands deferred on account of increase in ship prices. GST compliance and TCI's nationwide network would aid in grabbing market share from unorganised players.
- **Capex:** The company would add one more rake this year. No major fleet addition this year. The company has currently deferred buying ship. The ship prices are 3x to 4x currently. The price of ship which it used to buy at $6mn is now $20mn.
- **Cold chain:** The opportunity is large. Addition of JV partner brings new customers. It expects business to grow at 25% CAGR over next 3-4 years.

Financials (Consolidated) Rs cr

Particulars	Q3FY2022	Q3FY2021	y-o-y%	Q2FY2022	q-o-q%
Net sales	**837.7**	**807.1**	**3.8%**	**825.1**	**1.5%**
Other income	5.3	4.6	15.9%	2.9	82.2%
Total income	843.0	811.7	3.9%	828.1	1.8%
Total expenses	728.5	727.4	0.2%	720.6	1.1%
Operating profit	**109.2**	**79.7**	**37.0%**	**104.5**	**4.5%**
Depreciation	25.5	23.3	9.6%	25.6	-0.5%
Interest	2.6	6.3	-59.1%	3.3	-21.3%
Exceptional items	0.0	-10.4	-	0.0	-
Profit Before Tax	**86.4**	**44.3**	**95.2%**	**78.5**	**10.1%**
Taxes	10.8	6.5	65.6%	9.6	12.3%
PAT	75.6	37.7	100.3%	68.9	9.7%
Minority Interest/JV income	-6.3	-4.1	54.6%	-6.5	-2.9%
Adjusted PAT	**81.9**	**52.3**	**56.7%**	**75.4**	**8.6%**
EPS (Rs.)	10.6	6.8	56.7%	9.8	8.6%
Margins					
OPM (%)	13.0%	9.9%	316 bps	12.7%	37 bps
NPM (%)	9.8%	6.5%	330 bps	9.1%	64 bps
Tax rate (%)	12.5%	14.7%	-223 bps	12.3%	25 bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – 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. 855

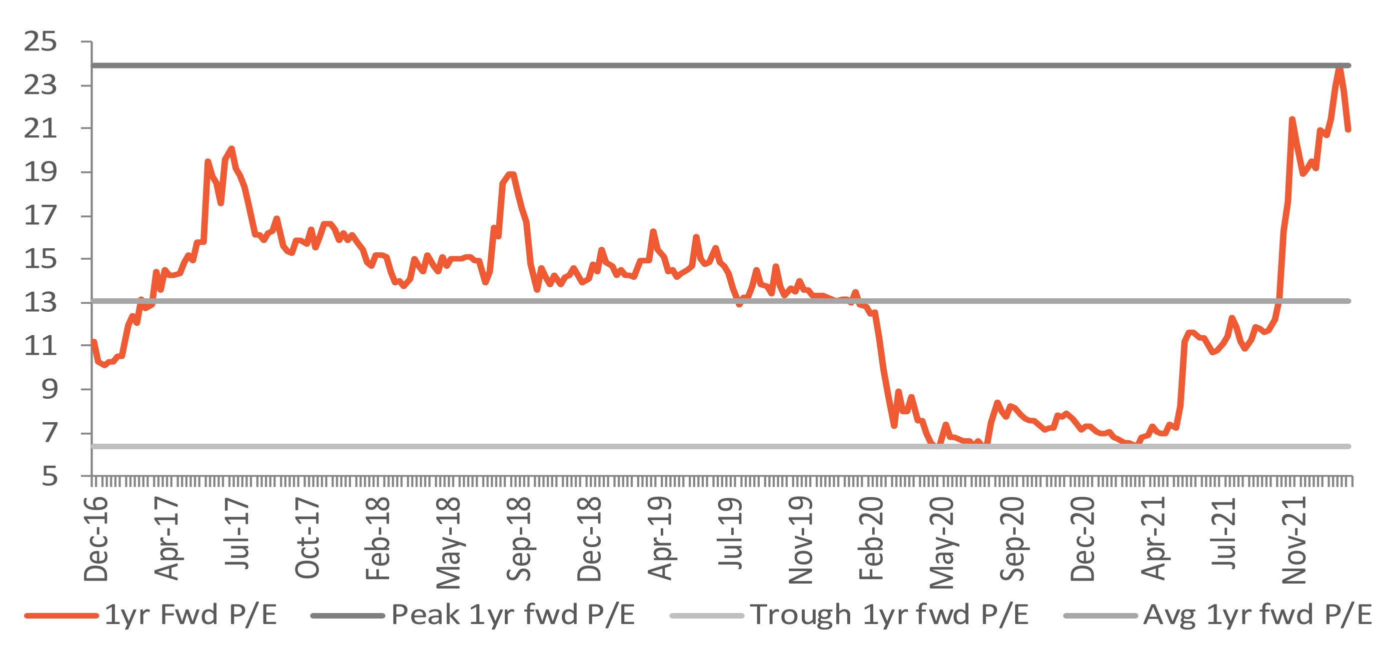
TCI is expected to benefit from the logistics sector's growth tailwinds led by GST (business moving towards the organised sector), government thrust on Atmanirbhar Bharat (PLI incentives to increase domestic manufacturing in turn leading to increased logistics needs), and global supply chain re-alignments (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. 855 factoring upwardly revised estimates and valuation multiples.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	13x EV/EBITDA on FY2024E	1,199	156
SCM	15x EV/EBITDA on FY2024E	2,402	313
Seaways	13x EV/EBITDA on FY2024E	2,598	338
Less: Net Debt		-252	-33
Value of core verticals		6,451	840
Transystem JV	1x P/B	117	15
Price target			**855**

Source: Company; 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	21.4	19.4	14.0	12.5	3.3	2.9	16.7	15.9
TCI Express	43.2	35.6	31.0	25.4	10.5	8.3	27.6	26.4
Mahindra Logistics	64.3	44.6	17.4	14.0	6.3	5.5	11.4	14.4

Source: Sharekhan Research

About the 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

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 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 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	6.4
2	HDFC Trustee	3.1
3	C. Robeco AMC	2.8
4	IDFC AMC	2.6
5	Sundaram AMC	1.1
6	Dimensional Fund	0.9
7	TATA AMC	0.8
8	GIC AMC	0.6
9	JP Morgan	0.5
10	LIC Nomura MF	0.5

Source: Bloomberg

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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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