

Transport Corporation of India

Rating: ◀▶ | Target price: ▲ | EPS: ◀▶

CMP
Rs. 724

Target Price
Rs. 800

Rating
BUY



ONE YEAR OUTLOOK

Business & Earnings ◀▶

- Maintain our positive stance on TRPC as it is expected to benefit from 1) sustained thrust in demand for coastal shipping, 2) recovery in automotive demand coupled with addition of new clientele driving 3PL growth (TCI Supply Chain (SCS)), 3) traction in multimodal logistics & 4) increasing contribution of less-than-truckload (LTL) in freight segment (margin accretive).
- In 3QFY22, Seaways revenue grew 43% YoY while EBITDA margins at 44.3% expanded 40bps QoQ due to availability of return cargo at Myanmar (fleeting opportunity available till Mar-22). While we factor in margins to normalize to ~33% in FY23E/FY24E, the continued availability of cargo from Myanmar in FY23E would lead to upward revision of estimates. Given sharp rise in ship procurement cost, we pencil in ship addition for 2HFY23E. The aforesaid is reflected in downward revision of FY23 estimates. Expect Seaways segment revenue & EBITDA CAGR of 30%/36% (FY21-24E).
- SCS segment's revenue declined 10% YoY as automotive production weakened due to semiconductor supply issues. Expect recovery in automotive demand (~80% of revenues), multimodal opportunities (3 trains to carry finished automotive) and cold chain opportunities to drive revenue & EBITDA CAGR of 15%/16% (FY21-24E).
- Expect freight division to benefit from 1) higher LTL contribution (40% by FY25 from 33% in FY21), 2) shift from unorganised sector, and 3) growth in multimodal logistics. Expect revenue and EBITDA CAGR (FY21-24E) of 12%/19% respectively.

Valuation Multiples ▲

- Valuing TRPC based on SOTP (page 2) to arrive at TP of Rs.800 (Sept-23). Increasing our multiple in Freight (7x EVEBITDA) and Seaways (11x EVEBITDA) given higher LTL proportion, strong growth drivers, and healthy margins. Despite capex (~Rs. 4bn through FY22-24) towards addition of ship, infrastructure and technology, RoCEs likely to improve from 12% to 19% in FY24.

FINANCIAL SUMMARY

	NET SALES (Rs. mn)	EBITDA %	PAT	EPS	P/E	EV/ EBITDA	ROE (%)
FY21	24,520	10.1%	1,452	19.0	38.2	23.6	14%
FY22E	29,344	13.3%	2,761	35.7	20.3	14.4	23%
FY23E	33,369	12.0%	2,714	35.1	20.6	13.9	18%
FY24E	39,220	13.1%	3,651	47.2	15.3	10.4	21%

THREE YEAR OUTLOOK

Business & Earnings ◀▶

- Expect TRPC to benefit from 1) shift in volumes from unorganised to organized sector, and 2) traction in multimodal logistics (TRPC is one of the few players with presence across value chain), which would drive revenue & EBITDA CAGR of 16%/25% respectively through FY21-25E.
- TRPC's established infrastructure, long-standing customer relationships and experienced management team (vintage of ~six decades) are expected to aid its position as a preferred 3PL partner. Furthermore, presence across multimodal logistics value chain (JV with Concor for rail transportation and fleet of ships for waterway transportation) allows TRPC to provide efficient end-to-end logistics solutions. Robust demand for multimodal logistics is expected to drive coastal shipping volume growth, benefiting Seaways division. Expect addition of new ship every 12-15 months to cater to incremental demand. However, increasing competition may dilute realization and profitability (CONCOR expected to restart coastal shipping operations in FY23E, and other logistics service providers evaluate opportunities).
- Expect freight segment to benefit from higher contribution from LTL services. Freight segment's share of overall revenues to reduce from 47% in FY21 to ~39% by FY25E.

Valuation Multiples ▲

- Improving operating cashflows, combined with reducing debt, are expected to drive RoCE (12% in FY21 to ~20% in FY25E). Based on FY25E estimates, we see a potential upside of 41% (incl. dividends).

KEY ESTIMATES REVISION

	FY22E			FY23E*		
	Old	New	Change	Old	New	Change
Sales	30,455	29,344	-4%	35,943	33,369	-7%
EBITDA %	11.5%	13.3%	187 bps	12.3%	12.0%	-35 bps
PAT	2,347	2,761	18%	2,979	2,714	-9%
EPS	30.4	35.7	18%	38.5	35.1	-9%
Implied Target P/E	Before Results: 18x			After Results: 19x		

*Change in FY23E factors deferral of ship addition with entire benefits in FY24; All figures in Rs.Mn

OUTLOOK REVIEW 3QFY22

28 January 2022

Industry	LOGISTICS
Key Stock Data	
Bloomberg	TRPC IN
Shares o/s	77mn
Market Cap	Rs. 56bn (\$1bn)
52-wk High-Low	Rs. 859-235
3m ADV	Rs. 202mn (\$3mn)
Index	BSE SMALLCAP
F&O	No

Latest Shareholding (%)

	Jun 21	Sep 21	Dec 21
Promoters	66.7	66.5	66.5
Institutions	14.8	14.8	14.9
Public	18.5	18.7	18.6
Pledge			

Stock Performance (%)

	1m	3m	12m
TRPC	1%	7%	195%
Sensex	0%	-6%	21%

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Quarterly Financial Statement

- TCI's freight segment reported revenues of Rs. 3.54bn, up 8% YoY and 4% QoQ. The segment's EBIT margins at 4.6%, were up 50bps sequentially
- Supply Chain segment reported revenues at Rs. 2.64bn, were down 10% YoY and 2% QoQ. EBIT margins at 5.9%, were up flat sequentially
- Seaways segment revenues at Rs. 1.47bn, were up 43% YoY and 10% QoQ. EBIT margins at 36.5% expanded 130bps QoQ likely due to opportune return cargo originating from east
- Capex incurred till 9MFY22 was at Rs. 189mn and estimated to be Rs. 500mn for FY22. Debt reduced to Rs. 500mn in 3QFY22 vs Rs. 831mn in 2QFY22.

Consolidated Financial Results

Rs. mn\Period	3QFY22	3QFY21	yoy Growth	2QFY22	qoq Growth	9MFY21	9MFY22	Yoy Growth
Revenue	7,593	7,152	6.2%	7,365	3.1%	16,554	21,066	27.3%
Operating expense	5,839	5,760	1.4%	5,730	1.9%	13,323	16,404	23.1%
Emp. cost	422	359	17.3%	404	4.4%	977	1,216	24.5%
Other expenses	264	278	-5.1%	243	8.7%	631	679	7.5%
Total Expenditure	6,525	6,398	2.0%	6,377	2.3%	14,931	18,298	22.6%
EBITDA	1,069	754	41.7%	988	8.1%	1,623	2,768	70.6%
Margin %	14.1%	10.5%	353 bps	13.4%	66 bps	9.8%	13.1%	334 bps
D&A	241	220	9.4%	242	-0.4%	613	716	16.8%
EBIT	828	534	55.0%	747	10.9%	1,010	2,052	103.2%
Other income	71	86	-17.6%	56	27.6%	246	234	-5.0%
Net Interest exp (inc)	22	58	-63.1%	28	-22.4%	192	90	-53.0%
PBT	878	562	56.1%	775	13.3%	1,064	2,196	106.3%
Tax provision	102	58	76.9%	91	11.6%	141	252	79.0%
Tax rate %	11.6%	10.2%	13.3%	11.8%	-17 bps	13.2%	11.5%	-175 bps
PAT (Reported)	776	479	62.1%	684	13.5%	923	1,943	110.5%
PAT (Adjusted)	776	401	93.7%	684	13.5%	897	1,943	116.6%
Adjusted PAT Margin %	10.2%	5.6%	462 bps	9.3%	94 bps	5.4%	9.2%	381 bps
Shares Outstanding	77	77		77		77	77	
EPS (Reported)	10.0	6.2	60.6%	8.8	13.5%	12.1	25.1	108.5%
EPS (Adjusted)	10.0	5.2	91.9%	8.8	13.5%	11.7	25.1	114.6%

SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		5,566	7x Sept-23e EV/EBITDA
TCI SCS		22,450	15x Sept-23e EV/EBITDA
TCI Seaways		26,743	11x Sept-23e EV/EBITDA
Others		61	2x Sept-23e EV/EBITDA
Net Cash(Net Debt)		1,439	
Value from TCI	730	56,259	91.4% of Total
Value from JV	70	5,272	8.6% of Total; Adjusted for hold co discount
No. Of Shares O/s (mn)		77	
Target Price	800	61,531	

Financial Summary

Abridged Financial Statements

Rs. mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Profit & Loss										
Revenue	22,578	18,042	21,778	25,583	25,134	24,520	29,344	33,369	39,220	44,585
Gross profit	4,742	3,502	4,288	4,888	4,864	4,782	6,349	7,008	8,315	9,541
EBITDA	1,823	1,575	2,083	2,442	2,335	2,479	3,915	3,995	5,149	6,212
Depreciation	539	578	673	752	777	881	957	1,031	1,135	1,213
EBIT	1,284	996	1,410	1,690	1,558	1,598	2,957	2,965	4,014	4,999
Other Income	122	177	245	269	283	352	331	367	441	547
Interest expense	282	286	299	356	324	248	108	62	56	23
Exceptional items	0	0	40	0	99	140	0	0	0	0
PBT	1,124	888	1,316	1,603	1,419	1,562	3,180	3,269	4,399	5,523
Reported PAT (after minority interest)	851	703	1,037	1,276	1,264	1,348	2,761	2,714	3,651	4,584
Adj PAT	850	703	1,037	1,276	1,257	1,452	2,761	2,714	3,651	4,584
EPS (Rs.)	11.2	9.2	13.5	16.7	16.4	19.0	35.7	35.1	47.2	59.3
Balance Sheet										
Net Worth	4,917	5,809	6,769	8,370	9,500	10,804	13,410	15,969	19,466	23,895
Deferred Tax	320	392	443	390	263	263	263	263	263	263
Total debt	3,394	4,066	4,238	4,496	4,083	2,735	1,017	1,317	817	317
Other liabilities and provisions	819	318	535	1,290	1,263	1,375	1,452	1,639	1,912	2,162
Total Networth and liabilities	9,449	10,584	11,985	14,546	15,109	15,177	16,142	19,189	22,458	26,638
Gross Fixed assets	8,021	8,761	10,345	11,917	13,159	14,305	14,805	16,905	18,005	19,305
Net fixed assets	5,169	5,325	6,236	7,055	7,521	7,786	7,328	8,398	8,363	8,451
Capital work-in-progress	123	568	563	40	216	52	52	52	52	52
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	231	298	313	938	888	858	858	858	858	858
Cash and bank balances	124	184	130	122	178	308	606	1,582	3,431	6,189
Loans & advances and other assets	1,192	1,601	1,604	2,221	2,324	2,223	2,653	3,017	3,546	4,031
Net working capital	2,609	2,608	3,139	4,170	3,982	3,951	4,645	5,282	6,208	7,057
Total assets	9,449	10,584	11,985	14,546	15,109	15,177	16,142	19,189	22,458	26,638
Capital Employed	8,630	10,266	11,450	13,256	13,846	13,802	14,690	17,549	20,546	24,476
Invested Capital (CE - cash - CWIP)	8,383	9,514	10,757	13,094	13,452	13,442	14,032	15,915	17,063	18,235
Net debt	3,270	3,882	4,109	4,375	3,905	2,427	411	-265	-2,614	-5,872
Cash Flows										
Cash flows from Operations (Pre-tax)	2,567	1,115	2,119	2,060	2,748	2,976	3,090	3,487	4,351	5,651
Cash flows from Operations (post-tax)	2,330	883	1,768	1,729	2,353	3,043	2,671	2,931	3,603	4,712
Capex	1,750	1,156	1,590	1,078	1,304	1,442	500	2,100	1,100	1,300
Free cashflows	580	-273	177	651	1,049	1,602	2,171	831	2,503	3,412
Free cashflows (post interest costs)	298	-560	-122	295	726	1,354	2,062	768	2,447	3,389
Cash flows from Investing	-988	-1,174	-1,538	-1,481	-1,346	-959	-500	-2,100	-1,100	-1,300
Cash flows from Financing	-1,383	370	316	-255	-964	-1,941	-1,872	145	-655	-655
Total cash & liquid investments	124	184	130	122	178	308	606	1,582	3,431	6,189

Financial Summary

	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Key variables (sector-specific)										
Freight Revenues (Rs. Mn)	8,400	9,223	10,311	12,096	12,478	11,508	13,487	14,836	16,319	17,625
Supply Chain Revenues (Rs. Mn)	6,249	7,374	9,126	10,189	9,250	9,376	10,646	12,776	14,436	15,880
Seaways Revenues (Rs. Mn)	1,407	1,639	2,564	3,593	3,677	3,953	5,467	6,014	8,720	11,336
Growth ratios										
Revenue	2.8%	12.9%	20.7%	17.5%	-1.8%	-2.4%	19.7%	13.7%	17.5%	13.7%
EBITDA	7.0%	17.7%	32.3%	17.2%	-4.4%	6.2%	58.0%	2.1%	28.9%	20.6%
Adj PAT	12.0%	18.0%	47.6%	23.0%	-1.0%	6.6%	104.8%	-1.7%	34.6%	25.6%
Margin ratios										
Gross	21.0%	19.4%	19.7%	19.1%	19.4%	19.5%	21.6%	21.0%	21.2%	21.4%
EBITDA	8.1%	8.7%	9.6%	9.5%	9.3%	10.1%	13.3%	12.0%	13.1%	13.9%
Adj PAT	3.8%	3.9%	4.8%	5.0%	5.0%	5.9%	9.4%	8.1%	9.3%	10.3%
Performance ratios										
Pre-tax OCF/EBITDA	140.8%	70.8%	101.7%	84.3%	117.7%	120.1%	78.9%	87.3%	84.5%	91.0%
OCF/IC (%)	27.8%	9.3%	16.4%	13.2%	17.5%	22.6%	19.0%	18.4%	21.1%	25.8%
RoE (%)	16.2%	13.1%	16.5%	16.9%	14.1%	14.3%	22.8%	18.5%	20.6%	21.1%
RoCE (%)	12.1%	9.8%	12.0%	12.6%	12.1%	12.2%	20.0%	17.2%	19.4%	20.5%
RoCE (Pre-tax)	16.0%	12.4%	15.2%	15.9%	13.6%	14.1%	23.1%	20.7%	23.4%	24.6%
RoIC (Pre-tax)	15.0%	11.1%	13.9%	14.2%	11.7%	11.9%	21.5%	19.8%	24.3%	28.3%
Fixed asset turnover (x)	2.9	2.2	2.3	2.3	2.0	1.8	2.0	2.1	2.2	2.4
Total asset turnover (x)	2.3	1.8	1.9	1.9	1.7	1.6	1.9	1.9	1.9	1.8
Financial stability ratios										
Net Debt to Equity (x)	0.7	0.7	0.6	0.5	0.4	0.2	0.0	(0.0)	(0.1)	(0.2)
Net Debt to EBITDA (x)	1.8	2.5	2.0	1.8	1.7	1.0	0.1	(0.1)	(0.5)	(0.9)
Interest cover (x)	8.3	3.1	5.9	4.9	7.3	12.3	24.6	47.0	64.5	201.9
Cash conversion days	42	53	53	59	58	59	58	58	58	58
Working capital days	48	79	71	73	73	71	73	73	73	73
Valuation metrics										
Fully Diluted Shares (mn)	76.1	76.1	76.6	76.6	76.6	76.6	77.3	77.3	77.3	77.3
Market cap (Rs.mn)			55,965							
P/E (x)	64.8	78.4	53.4	43.4	44.1	38.2	20.3	20.6	15.3	12.2
P/OCF(x)	24.0	63.4	31.7	32.4	23.8	18.4	21.0	19.1	15.5	11.9
EV (Rs.mn) (ex-CWIP)	59,112	59,279	59,511	60,300	59,654	58,393	56,376	55,700	53,351	50,094
EV/ EBITDA (x)	32.4	37.6	28.6	24.7	25.6	23.6	14.4	13.9	10.4	8.1
EV/ OCF(x)	25.4	67.2	33.7	34.9	25.4	19.2	21.1	19.0	14.8	10.6
FCF Yield			0.3%	1.2%	1.9%	2.9%	3.9%	1.5%	4.5%	6.1%
Price to BV (x)	11.4	9.6	8.3	6.7	5.9	5.2	4.2	3.5	2.9	2.3
Dividend pay-out (%)	13.4%	12.0%	11.8%	10.8%	12.2%	6.4%	5.6%	5.7%	4.2%	3.4%
Dividend yield (%)			0.2%	0.2%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%

Source: Company data, Spark Capital Research

Crystal Ball Gazing

Over FY20-25E, revenue growth is likely to be driven by 1) shift from unorganised to organized sector, 2) logistics supply chain outsourcing to 3PL players, and 3) traction in multimodal logistics. EBITDA growth is expected to be driven by higher contribution from supply chain services(3PL) and increase in movement of freight by multimodal logistics.



Healthy Revenue and EBITDA growth

	FY11-FY14	FY14-FY19	FY20-FY25E
Revenues CAGR	5%	12%	12%
Gross Margin	19%	20%	21%
EBITDA CAGR	3%	19%	22%
EBITDA margin	7.6%	8.7%	12.0%
EPS CAGR	6%	27%	29%
Total Asset Turnover (x)	2.5	2.1	1.8
Total WC days	56	66	73
Pre-tax OCF/EBITDA (%)	87%	100%	97%
Post Tax OCF as a % of IC	15%	16%	21%
Debt/EBITDA	2.1	2.5	0.2

Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY19	FY20-FY25E
RoE (%)	15.2%	15.5%	18.6%
RoCE (%)	10.9%	11.6%	16.9%
RoIC (%)	15.6%	13.9%	19.6%
Average 1 yr fwd			
PE (x)	4.3	12.8	
EV/EBITDA (x)	4.4	9.1	
Peak 1 yr fwd			
PE (x)	6.8	19.2	
EV/EBITDA (x)	6.6	12.8	

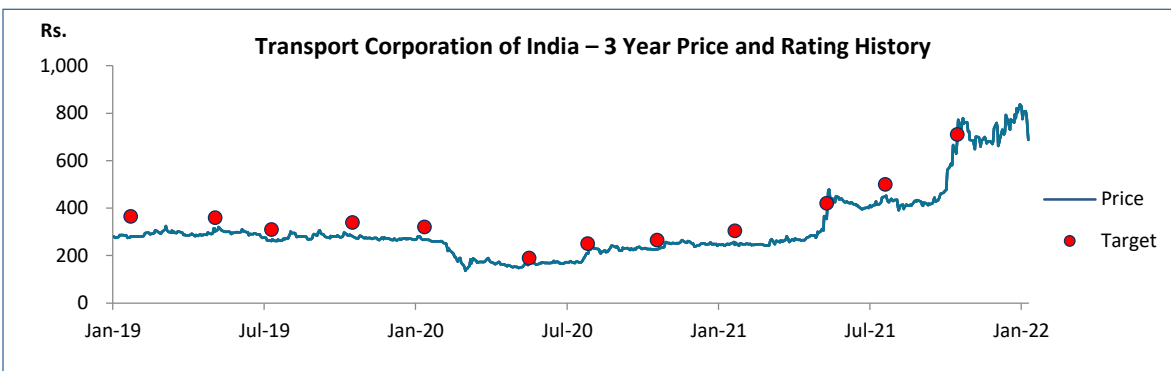
Healthy operating performance to sustain multiple

SOTP	FY25 EBITDA (Rs.mn)	EV/EBITDA (x)	EV (Rs.mn)
TCI Freight	916	7.0	6,415
TCI SCS	1,747	15.0	26,202
TCI Seaways	3,741	10.0	37,410
Others	30	2.0	61
Net Debt (Rs.mn)			-2,614
Mkt Cap (Rs.mn)			72,702
Standalone TP			941
JV (Transystem, TCI Concor)			78
Target Price			1,018



Source: Company data, Spark Capital Research

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
01-Nov-21	630	710	BUY
05-Aug-21	446	500	BUY
27-May-21	367	420	Buy
08-Feb-21	257	305	Buy
05-Nov-20	226	265	Buy
14-Aug-20	210	250	Buy
05-Jun-20	159	190	Buy
03-Feb-20	266	320	Buy
07-Nov-19	289	340	Buy
02-Aug-19	260	310	Buy
29-May-19	315	360	Buy
15-Feb-19	279	365	Buy
06-Nov-18	270	365	Buy
06-Aug-18	317	365	Buy
18-May-18	293	365	Buy

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Details of Financial Interest of covering analyst/ and his relatives	No
Investment banking relationship with the company covered	No
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