Transport Corporation of India (TRACOR)

ICICI direct Research

CMP: ₹ 630	Target: ₹ 810 (29%)	Target Period: 12 months	BUY

January 31, 2023

Secular growth leading to stable performance…

About the stock: Transport Corporation of India (TCI) is a leading provider of integrated multimodal logistics and supply chain solutions. The company has over six decades of experience and moves nearly 2.5% of India's GDP by value.

- TCI has 9000+ trucks in operation, six owned coastal ships, 12 million square feet warehousing space and 900 offices
- In FY22, freight formed 15% of EBITDA while SCM and coastal shipping contributed 26% and 58%, respectively

Q3FY23 Results: YoY margins lower due to exceptional base (international sailing).

- Revenues grew 16% YoY to ₹ 881 crore, led by freight, SCM, shipping revenue growth of 14%, 21%, 15%, respectively
- However, absolute EBITDA was flat at ₹ 109 crore (EBITDA margins contracted 173 bps to 12.4%)
- However, PAT grew 23% to ₹ 95 crore, due to higher other income

What should investors do? Although FY24 is expected to show moderation in growth as seaways is already seeing peak asset utilisation (delay in acquisition of ship to H1FY24), normalised base in freight, SCM segment, the management expects to maintain current margins, with a controlled cost structure.

- In spite of moderate growth, we maintain our **BUY** rating as valuations look attractive (debt free, multi-modal business) and margins are maintained

Target Price and Valuation: We value the stock at ₹ 810 (SOTP).

Key triggers for future price performance: TCI's multimodal solutions cater to the needs of a diversified customer base and help it to capture a higher wallet share of its customers.

- Focus on margin improvement by controlled cost structure and higher value added services
- Strong fundamentals (b/s, CF) together with improvement in margins and higher asset turnover, are expected to push return ratios to 18-20% in FY24

Alternate Stock Idea: Apart from TCI, we remain positive on Mahindra Logistics.

- Mahindra Logistics is an end to end 3PL logistics solution provider, from performing milk run to in-factory logistics, warehousing to first mile and last mile logistics
- Continued momentum in the non-auto segment of MLL to drive higher contribution from the value added services and thereby improve its margins as well as opportunity to capture higher wallet share of existing customers

TCI LEADERS IN LOGISTICS

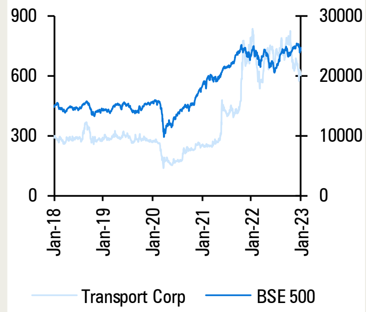
Particulars

Particular	Amount
Market Cap. (₹ cr)	4,596
Total Debt (FY22) (₹ Cr)	61.9
Cash and Investment (FY22) (₹	74.5
EV (₹ Crore)	4811.9
52 week H/L	859/527
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	66.6	66.6	69.0	69.0
Others	33.4	33.4	31.0	31.0

Price Chart



Recent event & key risks

- Acquisition of cargo ship
- **Key Risk:** (i) Continued hikes in diesel prices, (ii) Slowdown in auto sector

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(Year-end March)	FY21	FY22E	5 Years CAGR (FY17-22)	FY23E	FY24E	FY25E	CAGR
Revenues (₹ crore)	2,802.4	3,256.7	10.9%	3,757.8	4,239.8	4,784.2	13.7%
EBITDA (₹ crore)	261.2	408.7	20.3%	450.9	496.1	564.5	11.4%
Adjusted Net Profit (₹ crore)	147.1	289.6	28.7%	330.3	344.4	397.4	11.1%
EPS (₹)	18.9	37.3		42.5	44.3	51.1	
P/E (x)	32.3	16.6		14.6	14.0	12.2	
Price / Book (x)	4.2	3.4		2.8	2.4	2.0	
EV/EBITDA (x)	18.3	11.2		10.0	9.0	7.8	
RoCE (%)	13.3	20.3		19.4	18.3	18.1	
RoNW (%)	12.9	20.5		19.3	17.1	16.7	

Source: Company, ICICI Direct Research

Key takeaways

Q3FY23 Results: Shipping EBIT margins expected to normalise at 30-35%

- On the EBITDA front, seaways comprised ~57% of consolidated EBITDA, followed by SCM (26%) and transportation (17%)
- Seaways saw stronger demand due to increase in volumes from dry-docking while all ships were available for business
- SCM segment, on the other hand, saw good momentum due to retention and expansion of clients. However, headwinds exist in the form of inflation on consumer demand

Q3FY23 Earnings Conference Call highlights

- The management expects FY24 to be a subdued year due to normalisation of base year and an election year. However, higher infra spends could have a trickle-down effect on the economy
- On the shipping segment, the management expects clarity on new ship acquisition by Q2FY24. In case of no new ship acquisition, the management expects a flattish performance in the shipping segment in FY24. Currently, the ships are available at 2-2.4x the previous acquisition price. Hence, the management is refraining from getting into a purchase
- The management expects to maintain 30-35% seaways margins in the near to medium term
- On the freight business front, the management expects LTL: FTL ratio to come on track in the near term and expects the performance to stay stable
- The management expects 12-15% growth for the SCM segment in FY24
- One ship would be scrapped in the next two to three years. The management intends to add 20000 DWT ship each year to its fleet
- On the TCI Concor JV front, the management expects the performance to remain strong, going ahead
- Capex plans remains at ₹ 125-130 crore for FY23

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	880.8	886.5	759.3	16.0	850.9	3.5	YoY higher revenues led by strong growth in all segments
Operating Expenses	693.9	700.3	583.9	18.9	679.9	2.1	
Employee Expenses	47.6	48.8	42.2	13.0	47.5	0.3	
Administrative & Oth Expenses	30.5	31.0	26.4	15.4	31.9	-4.3	
Total Expense	772.1	780.1	652.5	18.3	759.3	1.7	
EBITDA	108.8	106.4	106.9	1.8	91.6	18.8	
EBITDA Margin (%)	12.4	12.0	14.1	-173 bps	10.8	158 bps	Margins largely in line with estimates
Depreciation	30.1	27.5	24.1	25.1	28.9	4.2	
Interest	2.2	2.0	2.2	1.9	2.1	3.8	
Other Income	28.9	9.8	7.1	305.6	7.6	280.5	
Exceptional Gain/Loss	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	105.3	86.7	87.8	20.0	68.2	54.5	
Total Tax	10.0	15.6	10.2	-1.7	10.8	-7.0	
PAT	95.3	71.1	77.6	22.9	57.4	66.1	
Key Metrics	**Q3FY23**	**Q3FY23E**	**Q3FY22**	**YoY**	**Q2FY23**	**QoQ**	
Freight Division	404.5	396.5	354.0	14.3	394.4	2.6	Higher growth due to festive season and larger volumes from key customers
Supply Chain Solutions	319.6	330.5	264.4	20.9	342.9	-6.8	New business acquisition, retention and expansion of clients led to higher business
Seaways	170.2	165.7	147.9	15.1	124.2	37.1	All ships were in operation in Q3

Source: Company, ICICI Direct Research

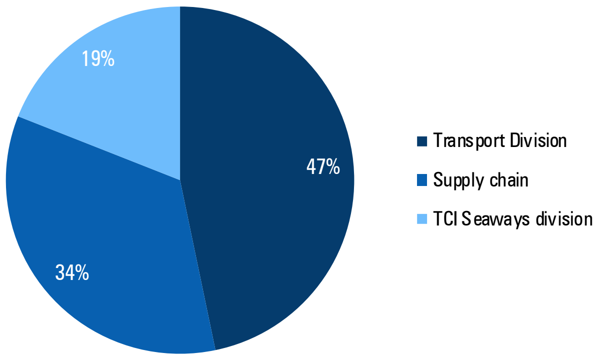
Exhibit 2: Change in estimates

		FY23E			FY24E			FY25E	Comments
(₹ Crore)	FY22	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	3,256.7	3,778.0	3,757.8	-0.5	4,478.5	4,239.8	-5.3	4,784.2	Revenues impacted by delayed addition of ship
EBITDA	408.7	453.4	450.9	-0.5	541.9	496.1	-8.5	564.5	
EBITDA Margin (%)	12.6	12.0	12.0	0 bps	12.1	11.7	-40 bps	11.8	
PAT	289.6	312.0	330.3	5.9	382.9	344.4	-10.0	397.4	
EPS (₹)	37.3	40.1	42.5	6.0	49.3	44.3	-10.1	51.1	

Source: ICICI Direct Research

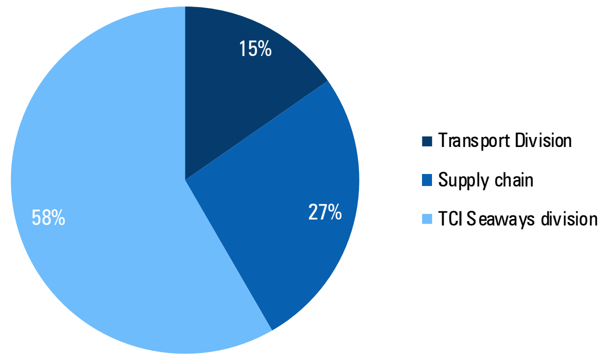
Key Metrics

Exhibit 3: Segmental revenues - FY22



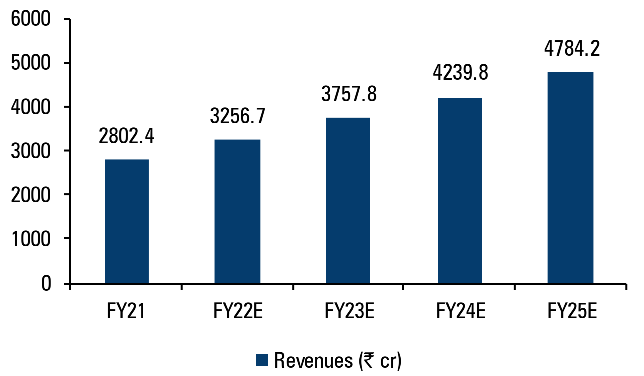
Source: ICICI Direct Research, Company

Exhibit 4: Segmental EBITDA – FY22



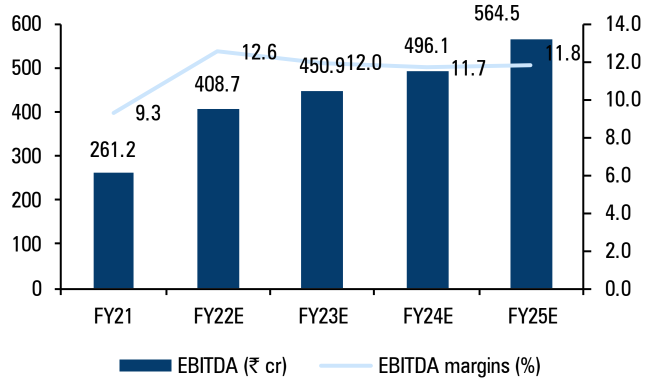
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 14% (FY22-25) CAGR



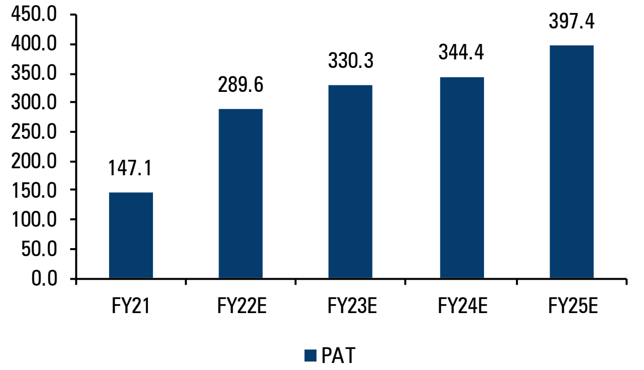
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA expected to grow at 11% CAGR (FY22-25)



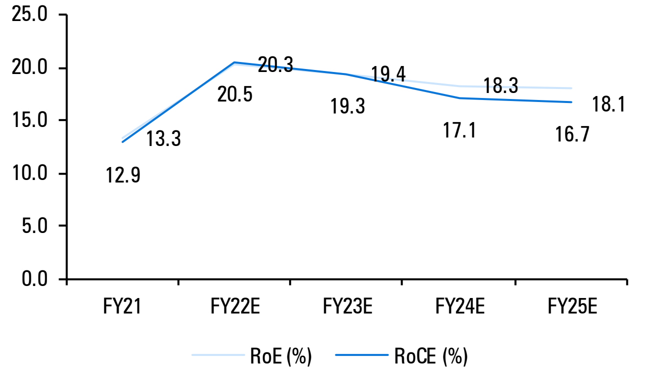
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 11% CAGR (FY22-25E)



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales	Sales	EPS	EPS	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	Growth (%)	(₹)	Growth (%)	(x)	(x)	(%)	(%)
FY21	2802.4	3.1	18.9	3.3	32.3	18.3	12.9	13.3
FY22	3256.7	16.2	37.3	96.8	16.6	11.2	20.5	20.3
FY23E	3757.8	15.4	42.5	14.1	14.6	10.0	19.3	19.4
FY24E	4239.8	12.8	44.3	4.3	14.0	9.0	17.1	18.3
FY25E	3757.8	-11.4	42.5	-4.1	14.6	10.0	19.3	19.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	3,256.7	3,757.8	4,239.8	4,784.2
Growth (%)	16.2	15.4	12.8	12.8
Operating expense	2,576.6	2,983.7	3,383.3	3,817.8
Manpower Cost	170.0	195.4	216.2	239.2
Admin & other expense	101.3	127.8	144.2	162.7
Total Expense	2,847.9	3,306.9	3,743.7	4,219.7
EBITDA	408.7	450.9	496.1	564.5
Growth (%)	56.5	10.3	10.0	13.8
Depreciation	113.0	120.4	134.2	148.0
EBIT	295.7	330.5	361.8	416.5
Interest	12.8	10.4	8.4	6.4
Other Income	19.9	26.3	29.7	33.5
PBT	302.8	346.4	383.1	443.6
Growth (%)	81.1	14.4	10.6	15.8
Tax	37.7	43.3	69.0	79.8
Reported PAT	265.2	303.1	314.2	363.8
Growth (%)	85.0	14.3	3.6	15.8
Share of Profit from JV	27.7	30.4	33.5	36.8
Minority Interest	3.2	3.2	3.2	3.2
Extraordinary Item	0.0	0.0	0.0	0.0
Adjusted PAT	289.6	330.3	344.4	397.4
EPS	37.3	42.5	44.3	51.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	289.6	330.3	344.4	397.4
Add: Depreciation	113.0	120.4	134.2	148.0
Add: Interest Expense	12.8	10.4	8.4	6.4
Cash Profit	415.5	461.2	487.0	551.8
Increase/(Decrease) in CL	-39.1	-164.9	-91.2	-102.5
(Increase)/Decrease in CA	-11.4	11.9	16.4	18.0
Others	3.0	0.0	0.0	0.0
CF from Operating Activities	368.0	308.2	412.3	467.3
Purchase of Fixed Assets	-70.7	-150.4	-150.4	-150.4
(Inc)/Dec in Investments	-28.7	-18.1	-200.3	-200.3
Others	-28.0	0.6	0.6	0.6
CF from Investing Activities	-127.4	-167.9	-350.1	-350.1
Inc/(Dec) in Loan Funds	-172.8	-10.0	-10.0	-10.0
Inc/(Dec) in Share Capital	0.1	0.0	0.0	0.0
Less: Interest Expense	-12.8	-10.4	-8.4	-6.4
Others	-20.1	-35.8	-35.8	-35.8
CF from financing activities	-205.7	-56.2	-54.2	-52.2
Change in cash Eq.	34.9	84.0	7.9	65.0
Op. Cash and cash Eq.	39.5	74.5	158.5	166.4
Cl. Cash and cash Eq.	74.4	158.5	166.4	231.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Source of Funds				
Equity Capital	15.5	15.5	15.5	15.5
Reserves & Surplus	1,414.8	1,709.3	2,017.9	2,379.4
Shareholder's Fund	1,430.3	1,724.8	2,033.3	2,394.9
Loan Funds	61.9	51.9	41.9	31.9
Deferred Tax Liability	27.6	28.1	28.7	29.2
Minority Interest	27.4	27.4	27.4	27.4
Govt Grant	1.9	1.9	1.9	1.9
Long Term Provisions	4.6	4.6	4.6	4.6
Source of Funds	1553.6	1838.7	2137.8	2489.9
Application of Funds				
Gross Block	1,159.1	1,309.1	1,459.1	1,609.1
Less: Acc. Depreciation	435.0	555.5	689.7	837.7
Net Block	724.1	753.6	769.4	771.4
Capital WIP	7.3	7.7	8.0	8.5
Non-Current Investments	178.0	195.8	395.8	595.8
Long Term Loans &	14.7	15.0	15.3	15.6
Other Non-Current Assets	102.4	102.4	102.4	102.4
Inventories	8.5	8.2	9.3	10.5
Debtor	508.3	669.2	755.0	852.0
Cash	74.5	158.5	166.4	231.3
Loan & Advance, Other CA	209.4	213.6	217.9	222.2
Current Liabilities	273.4	285.3	301.7	319.7
Trade Payables	85.1	92.7	104.5	118.0
Other Current Liabilities	167.8	171.1	174.5	178.0
Short Term Provisions	20.5	21.5	22.6	23.7
Application of Funds	1,553.6	1,838.7	2,137.8	2,489.9

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	184.9	223.0	262.9	309.6
Cash per share	65.4	86.1	97.2	109.7
EPS	37.3	42.5	44.3	51.1
Cash EPS	48.7	54.5	57.7	65.9
DPS	2.0	4.0	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	12.6	12.0	11.7	11.8
PAT Margin (%)	8.1	8.1	7.4	7.6
Fixed Asset Turnover (x)	4.5	5.0	5.5	6.2
Inventory Turnover (Days)	0.9	0.8	0.8	0.8
Debtor (Days)	57.0	65.0	65.0	65.0
Current Liabilities (Days)	9.5	9.0	9.0	9.0
Return Ratios (%)				
RoE	20.5	19.3	17.1	16.7
RoCE	20.3	19.4	18.3	18.1
RoIC	21.8	21.3	19.6	19.5
Valuation Ratios (x)				
P/E	16.9	14.8	14.2	12.3
Price to Book Value	3.4	2.8	2.4	2.0
EV/EBITDA	11.2	10.0	9.0	7.8
EV/Sales	1.4	1.2	1.1	0.9
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	23.0	31.8	43.1	65.2
Debt to EBITDA (x)	0.2	0.1	0.1	0.1
Current Ratio	2.5	2.3	2.1	1.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
APSEZ	605	1,000	BUY	1,22,921	21.9	28.7	43.2	24.6	25.3	21.1	17.3	16.4	14.3	12.7	9.5	11.5	16.3	10.7	12.5
Container Corporation	645	700	HOLD	34,121	17.3	20.8	20.6	97.2	77.8	37.2	6.2	9.7	5.6	10.9	4.5	10.2	12.1	5.4	9.6
Transport Corp. of India	630	810	BUY	4,596	37.3	42.5	44.3	34.4	33.3	16.9	20.5	18.3	11.2	12.4	13.3	20.3	14.0	12.9	20.5
Gujarat Pipavav	94	110	BUY	4,544	4.1	5.6	6.7	23.0	16.8	14.1	8.9	7.5	6.4	12.1	15.7	18.6	8.6	11.7	13.8
TCI Express	1,840	2,195	BUY	7,043	26.2	33.5	40.0	79.1	70.3	55.0	58.0	52.5	40.4	36.3	31.9	33.4	29.5	26.1	26.6
Mahindra Logistics	475	610	BUY	3,406	5.2	9.5	16.9	91.9	50.0	28.1	16.2	11.9	8.7	12.2	33.7	40.0	6.3	10.6	16.2
BlueDart Express	6,800	8,000	HOLD	16,157	160.9	202.8	246.8	158.7	42.3	33.5	22.9	15.3	13.6	40.7	77.5	71.2	12.8	39.7	40.8
Gateway Distriparks	66	75	HOLD	3,298	4.5	3.4	3.8	32.0	35.0	14.7	12.7	12.0	9.8	9.9	11.7	15.4	5.6	6.4	13.7

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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