Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Transport Corporation of India Ltd

A healthy performance across key verticals

Logistics	Sharekhan code: TCI		
Reco/View: Buy ↔	CMP: Rs. 623	Price Target: Rs. 785 ↓	

↑ 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		↔	

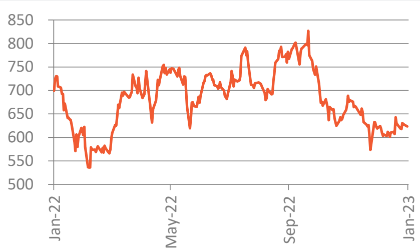
Company details

Market cap:	Rs. 4,832 cr
52-week high/low:	Rs. 845/529
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	69.0
FII	3.3
DII	11.7
Others	16.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	-12.7	-13.3	-10.9
Relative to Sensex	2.6	-10.7	-15.7	-13.5

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on TCI Limited with a revised PT of Rs. 785, rolling forward our valuation multiple to FY2025E earnings, while lowering our valuation multiples to factor in the sluggish macro-economic outlook.
- TCI reported better-than-expected performance for Q3FY2023, led by strong revenue growth across key verticals, better-than-expected OPM in freight, and lower effective tax rate.
- Management expects 10-15% y-o-y revenue growth, while net profit is expected to grow at ~10% y-o-y, owing to lower OPM in seaways y-o-y. Strong revenue growth in freight and SCM business is expected to drive growth.
- Seaways is expected to remain flat for FY2024 due to delay in ship purchase. The company would decide upon ship acquisition by Q2FY2024 end as ship prices continue to remain elevated.

Transport Corporation of India (TCI) reported better-than-expected performance for Q3FY2023. Consolidated revenue rose by 15.4% y-o-y to Rs. 967 crore, led by strong growth across key verticals (revenue in SCM/Freight/Seaways was up 21%/14%/12% y-o-y at Rs. 319/404/159 crore). The company's Concor (up 5.7% y-o-y) and cold chain (down 8.5% y-o-y) JVs reported muted performance. Consolidated OPM stood at 11.8% (down 120 bps y-o-y), higher than our estimate of 11.3% owing to higher-than-expected OPM in freight (4.9%). Consolidated operating profit/net profit grew by 4.8%/4.7% y-o-y at Rs. 114 crore/ Rs. 86 crore (higher than our estimate), owing to increased revenue growth and lower effective tax rate. For FY2024, management expects 10-15% y-o-y revenue growth, while net profit is expected to grow at ~10% y-o-y owing to lower OPM in Seaways on a y-o-y basis. Strong revenue growth in freight and SCM business is expected to drive growth, while Seaways is expected to remain flat. The company will possibly decide upon ship addition by Q2FY2024-end, as ship prices remain elevated (2.0-2.5x of the earlier ship purchased).

Key positives

- Consolidated revenue rose by 15.4% y-o-y, led by strong growth across freight, SCM, and Seaways businesses.
- OPM in freight improved 61 bps q-o-q to 4.9%, which was higher than our expectation.

Key negatives

- SCM and Seaways reported 25bps and 114bps q-o-q contraction in OPM at 9.2% and 40.4%, respectively.
- Concor and cold chain JVs reported muted performance with revenue growth of 5.7% y-o-y and a decline of 8.5% y-o-y at Rs. 74 crore and Rs. 14 crore, respectively.

Management Commentary

- For FY2024, the company may witness 10-15% y-o-y revenue growth, while net profit is expected to grow at ~10% y-o-y, assuming margins in Seaways come down. The company expects freight and SCM to grow at 12-15% y-o-y, while Seaways would remain flat if no ship is added.
- The company did capex of Rs. 82 crore in 9MFY2023, while it expects to incur capex of Rs. 125-130 crore for FY2023. The company would possibly look to buy ship by the end of Q2FY2024.
- Consumer trends in particular remained weaker in Q3. Weak demand can be attributed to general slowdown post Diwali and some impact of higher interest costs. However, it has not seen any slowdown in the B2B segment.

Revision in estimates – We have marginally revised our estimates upwards for FY2023-FY2025, factoring in higher revenue growth in freight and SCM businesses.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 785: TCI is expected to drive overall revenue growth with strong growth envisaged in freight and SCM businesses, while Seaways remains flat owing to delayed addition of the new ship. TCI's multi-modal capabilities and addition of clients in new sectors are expected to drive growth. The addition of one more ship in Seaways is being keenly awaited, which would provide further fillip to its growth outlook. We expect consolidated revenue/operating profit/net profit CAGR of 12%/12%/11%, respectively, over FY2023-FY2025E. We roll forward our earnings multiple to FY2025E earnings, while lowering our valuation multiple across segments to factor in the sluggish macroeconomic outlook. 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 price (TP) of Rs. 785.

Key Risks

A sustained weak macroeconomic and auto industry environment can lead to downward revision in net earnings.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	3,256.7	3,783.1	4,272.5	4,748.8
OPM (%)	12.6	11.6	11.3	11.5
Adjusted PAT	289.6	328.2	360.6	401.4
% YoY growth	80.8	13.3	9.9	11.3
Adjusted EPS (Rs.)	37.5	42.5	46.7	51.9
P/E (x)	16.6	14.7	13.4	12.0
P/B (x)	3.3	2.8	2.3	2.0
EV/EBITDA (x)	11.9	11.1	10.1	8.9
RoNW (%)	22.3	20.8	19.0	17.8
RoCE (%)	17.5	16.5	15.1	14.6

Source: Company; Sharekhan estimates

Healthy revenue growth across key verticals lead to PAT beat

TCI reported better-than-expected performance for Q3FY2023. Consolidated revenue rose by 15.4% y-o-y at Rs. 967 crore, led by strong growth across key verticals (revenue in SCM/Freight/Seaways was up 21%/14%/12% y-o-y at Rs. 319/404/159 crore). Concor (up 5.7% y-o-y) and cold chain (down 8.5% y-o-y) JVs reported muted performance. Consolidated OPM at 11.8% (down 120 bps y-o-y) was higher than our estimate of 11.3%, owing to higher-than-expected OPM in freight (4.9%). Consolidated operating profit/net profit grew by 4.8%/4.7% y-o-y at Rs. 114 crore/Rs. 86 crore (higher than our estimate) owing to increased revenue growth and lower effective tax rate. For FY2024, management expects 10-15% y-o-y revenue growth, while net profit is expected to grow at ~10% y-o-y owing to lower OPM in Seaways on a y-o-y basis.

Key Conference Call takeaways -

- **Guidance: For FY2024:** The company may see 10-15% y-o-y revenue growth, while net profit is expected to grow at ~10% y-o-y assuming margins in Seaways come down. The company expects freight and SCM to grow at 12-15% y-o-y, while Seaways would remain flat if no ship is added.
- **Q3FY2023 performance:** Consolidated revenue grew by 15.5%, while net profit grew by 4.6% y-o-y. Standalone net profit grew higher on account of Rs. 19.6 crore dividend received from the JV. Consumer trends in particular remained weaker in Q3. Weak demand can be attributed to the general slowdown post Diwali and some impact of higher interest costs. However, it has not seen any slowdown in the B2B segment.
- **Freight:** The division grew its revenue by 14% y-o-y to Rs. 404 crore. OPM remained stable y-o-y at 4.9%.
- **SCM:** The division recorded 21% y-o-y growth in revenue to Rs. 318.6 crore. OPM stood at 9.2% in Q3FY2023 versus 10.2% in Q3FY2022. Higher contribution of last-mile and finished goods (higher cost structure) led to lower margins y-o-y. The company expects OPM to normalise going ahead.
- **Seaways:** All four ships remained operational during Q3, leading to 12% y-o-y growth in revenue at Rs. 158.8 crore. OPM stood at 40.4% in Q3FY2023 versus 46.3% in Q3FY2022. It does not expect dry dock in Q4FY2023, while one ship is expected to go for dry docking in Q1FY2024. Domestic freight rates have not come down and are expected to stay high for Q4FY2023. It is looking for 20,000-30,000 tonne ship addition per annum for the next 3-4 years. Ship prices remain 2-2.5x of the ship it had previously bought, while the availability of ship remains an issue. The book value of ships is Rs. 240 crore.
- **JVs:** It expects JV with Concor and cold chain business to record flat revenue for FY2023. Transystem JV recorded 42% y-o-y revenue growth.
- **Cold chain:** It dropped some e-commerce clients to maintain margins. It is working on contracts and expects to see growth from Q1FY2024.
- **Capex:** It did capex of Rs. 82 crore in 9MFY2023, while it expects to incur capex of Rs. 125-130 crore for FY2023. It would possibly look to buy the ship by the end of Q2FY2024.

Results (Consolidated) **Rs cr**

Particulars	Q3FY2023	Q3FY2022	y-o-y%	Q2FY2023	q-o-q%
Net sales	**966.7**	**837.7**	**15.4%**	**932.1**	**3.7%**
Other income	7.1	5.3	32.5%	7.4	-4.3%
Total income	973.8	843.0	15.5%	939.5	3.6%
Total expenses	852.3	728.5	17.0%	836.1	1.9%
Operating profit	**114.4**	**109.2**	**4.8%**	**96.0**	**19.2%**
Depreciation	31.4	25.5	23.0%	30.0	4.5%
Interest	2.6	2.6	0.8%	2.5	2.8%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	**87.5**	**86.4**	**1.2%**	**70.8**	**23.6%**
Taxes	11.0	10.8	2.2%	11.6	-4.7%
PAT	76.4	75.6	1.1%	59.2	29.2%
Minority Interest/JV income	-9.4	-6.3	47.6%	-13.2	-28.9%
Adjusted PAT	**85.8**	**81.9**	**4.7%**	**72.3**	**18.6%**
EPS (Rs.)	11.1	10.6	4.7%	9.4	18.6%
Margins					
OPM (%)	11.8%	13.0%	-120 bps	10.3%	154 bps
NPM (%)	8.9%	9.8%	-91 bps	7.8%	111 bps
Tax rate (%)	12.6%	12.5%	12 bps	16.4%	-376 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook led by changing consumer preferences and macro pick-up

The logistics industry had been one of the key sectors, which showed a strong revival post-COVID-19 pandemic that affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail freight volume, domestic ports volume, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business, led by user industries' preference towards credible supply chain management in wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen a faster improvement in operations, led by segments such as 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 the multi-modal logistics and the supply chain businesses with over six decades of experience give 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, the 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. 785

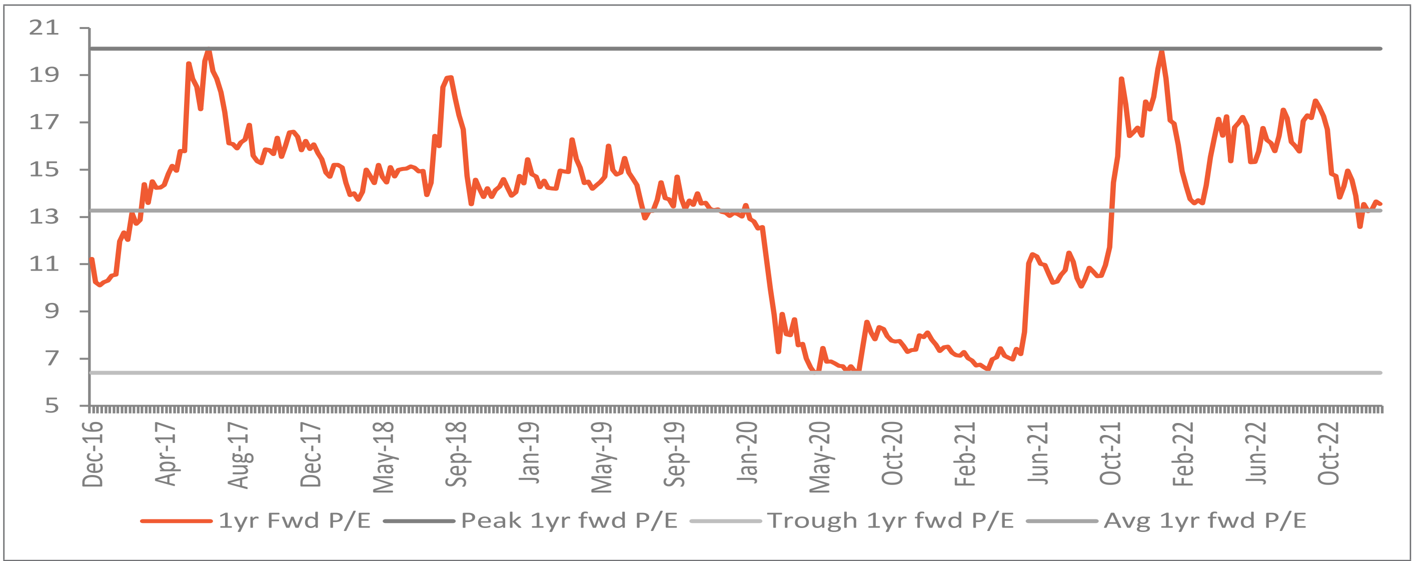
TCI is expected to drive overall revenue growth with strong growth envisaged in freight and SCM businesses, while Seaways remains flat owing to delayed addition of the new ship. TCI's multi-modal capabilities and addition of clients in new sectors are expected to drive growth. The addition of one more ship in Seaways is being keenly awaited, which would provide further fillip to its growth outlook. We expect consolidated revenue/operating profit/net profit CAGR of 12%/12%/11%, respectively, over FY2023-FY2025E. We roll forward our earnings multiple to FY2025E earnings, while lowering our valuation multiple across segments to factor in the sluggish macroeconomic outlook. 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 TP of Rs. 785.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	9x EV/EBITDA on FY2025E	979	127
SCM	11x EV/EBITDA on FY2025E	2247	292
Seaways	9x EV/EBITDA on FY2025E	2127	277
Less: Net Debt		-562	-73
Value of core verticals		5915	770
Transystem JV	1x P/B	117	15
Price target			**785**

Source: Company, Sharekhan Research

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TCI	14.7	13.4	11.1	10.1	2.8	2.3	20.8	19.0
TCI Express	42.2	34.5	30.4	24.8	11.0	8.6	27.7	28.2
Mahindra Logistics	58.6	35.0	11.3	8.9	4.6	4.0	9.1	13.6

Source: Company, Sharekhan Research

About 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 a 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 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.

Key Risks

- Slowdown in the macroeconomy leading to a weak logistics industry outlook.
- High concentration on the automotive industry.
- Highly competitive industry.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman and Managing Director
Mr. Vineet Agarwal	Managing Director
Mr. Ashish Tiwari	Group Chief Financial Officer
Ms. Archana Pandey	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC AMC	7.6
2	TCI Trading	6.4
3	Bang Nirmal Mishrilal	1.1
4	Agarwal Dharam Pal	1.1
5	Tata AMC	0.9
6	LIC MF AMC	0.9
7	IDFC AMC	0.8
8	Sundaram AMC	0.8
9	Dimensional Fund	0.8
10	Blackrock Inc.	0.1

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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