

Transport Corporation of India

BUY



Asian Markets Securities Pvt. Ltd.

Pressure to continue over the near term

Institutional Research

CMP (Rs)	159
Target (Rs)	310
Upside (%)	95%

Nifty: 10,029 Sensex: 33,981

Key Stock Data

Bloomberg	TRPC IN
Shares O/s Mn (FV INR10)	76.7
Mkt Cap(USD Mn/INR Bn)	0.2/12.2
52-week high/low	315/121
Free Float %	30

Shareholding Pattern

(%)	Sep19	Dec19	Mar20
Promoter	66.8	66.8	66.9
FII	4.5	1.8	1.8
DII	9.8	9.9	10.1
Others	18.9	21.4	21.3

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On the back of weaker economic environment and Covid-19 impact on high activity month of March'20, TCI witnessed a revenue decline of 10% yoy to Rs 6.3bn. The impact was more severe on SCM division which witnessed a sharp decline of 22% yoy mainly on account of higher salience from automobile which has been under pressure even before nationwide lockdown. The Coastal shipping division sales declined by 4% yoy albeit on a higher base in corresponding quarter (grew by 46% in Q4FY19). However, its freight division has been emerged as immune to challenging macro conditions due to essential nature of service as it reported a minor dip of 1% yoy in revenues. EBITDA margin compressed by 190bps yoy to 9.3% mainly on account of slump in relatively better margin SCM segment. Net profit declined by 28% yoy to Rs 313mn. Going ahead, we expect ongoing lockdown will have significant impact on SCM and coastal shipping divisions over the near term whereas freight division is expected to see least impact as it is falling in essential services. We remain positive on TCI on the back of its large logistics infrastructure and proven track record of execution across verticals. Post correction in the stock price (30% in last three months), its current valuation at 6x PE on FY22E earnings is very attractive. Maintain 'Buy'.

Pressure visible across segments but freight division was least affected

On the back of sluggish economic activities and Covid-19 impact on seasonally heavy month of March resulted in pressure across segments. The company witnessed a sales loss of ~Rs 1bn due to lockdown impact on last 10 days of business operations. Amongst all divisions, the freight division was least affected as it witnessed a revenue decline of just 1.3% yoy. Slower goods movement across sectors resulted in muted growth in freight division especially in FTL which contributes 2/3rd of trucking revenues expected to be declined by low single digit. It's higher margin LTL business continues to do well and should have grown at single digit and now contributes 1/3rd of its trucking revenues.

Going ahead we believe the freight division will be least affected due to ongoing lockdown as it is falling essential services which remained largely unaffected even in complete lockdown. Hence we expect revenue decline in mid single digit over the near term. Over the medium-longer term, freight division will see 8-10% growth mainly on account of higher growth traction in LTL segment and modest growth recovery in FTL segment.

The Coastal shipping division also witnessed a muted performance due to tepid demand environment and increasing competition. Sales declined by 4% y-o-y to Rs 1,046mn albeit on a high base (+46% in Q4FY19). On a sequential basis, sales grew by 6% due to scaling up of new ship added in Oct'19. We believe revenue from old ship as compared to base quarter been sluggish and incremental revenue come from new ships which helped to restrain further decline.

SCM witnessed a double whammy of lockdown and slowdown in domestic auto sector

SCM division witnessed a double whammy of lockdown in the later part of March and significant pressure on domestic auto sector which contribute the most to SCM revenue. For the quarter, revenue witnessed revenue declined of 22% yoy to Rs 2.1bn mainly due to subdued performance from auto segment and lockdown period in late march. Over the near-medium term, we don't see any recovery as ongoing lockdown will have significant on dependant sectors especially automobile. However, we remain positive on SCM business over the medium to longer term on the back of superior offerings, wide client base and hybrid business model.

EBITDA margin contracted by 190bps y-o-y to 9.3%

EBITDA margin compressed by 190bps yoy to 9.3% mainly on account of negative operating leverage arising from higher fixed costs in SCM and coastal shipping divisions. Whereas, freight division witnessed a less pressure on margin due to higher proportion of variable costs. Usage of high priced low sulphur fuel due to IMO regulation also impacted the margin of coastal shipping division.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Sales	23,461	27,537	27,178	25,308	30,363
yoy (%)	20.8	17.4	-1.3	-6.9	20.0
EBITDA	2,127	2,495	2,405	2,178	2,957
yoy (%)	32.4	17.3	-3.6	-9.4	35.7
PAT	1,238	1,453	1,432	1,232	1,983
yoy (%)	52.4	17.3	-1.4	-14.0	61.0
EBITDAM (%)	9.1%	9.1%	8.9%	8.6%	9.7%
NPM (%)	5.3%	5.3%	5.3%	4.9%	6.5%
EPS (Rs)	16.2	19.0	18.6	16.0	25.8

Exhibit 2: Key Indicators

Y/E Mar	FY18	FY19	FY20E	FY21E	FY22E
Equity	153.2	153.3	153.7	153.7	153.7
RoE (%)	17.6	17.6	14.9	11.5	16.3
RoCE (%)	14.8	15.6	13.2	10.7	14.6
ROIC (%)	15.1	15.8	14.1	12.2	16.1
D:E (x)	0.5	0.5	0.4	0.3	0.3
PER (x)	9.8	8.4	8.5	9.9	6.2
P/BV (x)	1.6	1.4	1.2	1.1	0.9
EV/Sales (x)	0.7	0.6	0.6	0.6	0.5
EV/EBITDA (x)	7.5	6.5	6.5	6.8	5.0

Source: Company, AMSEC Research
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FY20 Consolidated financial performance:

Consolidated sales/EBITDA/Net profit declined by 1.3%/3.6%/1.4% respectively. Despite challenging economic environment, freight and coastal shipping divisions managed to grow by 2.6% and 2.3% respectively whereas SCM division witnessed a decline of 7% in revenues due to sluggish auto sector. EBITDA margin was lower by 20bps to 8.9%. During FY20, it incurred capex of Rs 1bn and the large part of it was on new ship acquisition (~50% of total capex). Working capital remained stable at 60days despite the liquidity pressure across sectors. Debt/Equity remains stable at 0.4x. However, due to sluggish earnings ROE compressed by ~250bps to 15% in FY20.

Subsidiaries and JVs performance:

Transsystem Logistics (JV): Revenue was lower by 16% yoy to Rs 4,448mn whereas TCI's profit share in JV was Rs 255mn as compared to Rs 254mn in FY19.

TCI CONCOR (JV): Revenue was flat at Rs 1,890mn

TCI Cold Chain (Subsidiary): Revenue grew by 3.7x to Rs 258mn

Outlook & Valuation

On the back of lockdown impact on dependant sectors, we see significant pressure over the near term especially in SCM and coastal shipping divisions whereas freight division will have modest recovery. Overall, we are expecting some recovery from H2FY21 onwards. However, we remain positive on TCI on the back of its large logistics infrastructure and proven track record of execution across verticals. At CMP, TCI trades at 10x and 6x on FY21E and FY22E earnings respectively. We maintain 'Buy' with the price target of Rs 310 based on 12x FY22E earnings. We have reduced our target multiple from 15x FY22E earnings earlier due to near-medium term pressure on earnings.

KTA from Earnings Call

- Lockdown resulted in sales loss of Rs ~1bn in the month of March.
- Currently, operating at ~50% of normal level and it is improving gradually.
- Freight division: Sales mix remains same at 1/3rd from LTL and 2/3rd from FTL.
- FY21 may see pressure on LTL business as it is largely dependent on MSME segment where impact of ongoing lockdown will be more.
- Margin in coastal shipping division was under pressure due to use of high priced low sulphur fuel due to IMO regulation and Covid-19 interruption.
- In coastal shipping division, fuel cost accounts for 40-45% of total cost and it has increased by 10-15% due to IMO regulation.
- Currently Seaways division operating at 40% of normal level and it requires 2/3rd of normal business to achieve cash profit.
- Coastal shipping sector is witnessing an industry consolidation as the many existing players are reducing the capacity due to very less volumes. It will benefit to focused player like TCI over the medium term.
- **Subsidiary & JV Performance:**
 - Transsystem:** Revenue was lower by 16% yoy to Rs 4,448mn
 - TCI CONCOR:** Revenue was flat at Rs 1890mn
 - TCI Cold Chain:** Revenue grew by 3.7x to Rs 258mn
- Better cost optimization and asset utilization along with tax reduction helped the Transsystem JV in reporting the better profitability despite the pressure on revenues.
- Planning to spend Rs 100cr towards capex and most of it will self funded
- SCM division revenue mix: Automobile – 75% and Non auto – 25%
- Within auto SCM segment, Mobility (2W & 4W) contributes 2/3rd of and balance comes from CVs and Agri equipments.
- Many truckers are avoiding operating due to lack of return cargo.

Exhibit 3: 4QFY20 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	y-o-y change	q-o-q change	FY20	FY19	y-o-y change
Income from operations	6,918	6,121	6,282	6,473	6,257	-9.6%	-3.3%	25,134	25,561	-1.7%
Less: Expenditures										
Operating cost	5,475	4,942	5,062	5,241	5,025	-8.2%	-4.1%	20,270	20,695	-2.1%
Staff cost	338	372	374	370	408	20.5%	10.0%	1,524	1,358	12.2%
Other op. & admin cost	334	245	281	235	245	-26.7%	4.3%	1,005	1,088	-7.6%
EBITDA	771	562	566	627	580	-24.8%	-7.5%	2,335	2,420	-3.5%
Other Income	46	75	84	58	67	45.7%	15.8%	283	291	-2.6%
Depreciation	189	186	190	204	197	4.1%	-3.6%	777	738	5.2%
EBIT	628	451	459	481	450	-28.3%	-6.4%	1,841	1,973	-6.7%
Interest	91	82	77	84	80	-12.0%	-5.3%	324	356	-9.1%
Profit Before Tax	537	369	382	396	370	-31.1%	-6.6%	1,518	1,617	-6.1%
Tax	101	72	(49)	75	57	-43.3%	-23.6%	155	326	-52.7%
Profit after Tax	436	297	432	321	313	-28.3%	-2.6%	1,363	1,291	5.6%
Extraordinary items	-	-	(99)			#DIV/0!	#DIV/0!	(99)	-	NA
Net Profit	436	297	333	321	313	-28.3%	-2.6%	1,264	1,291	-2.0%
EPS	5.68	3.87	4.33	4.18	4.07	-28.3%	-2.6%	16.45	16.79	-2.0%
Operating Matrix						bps	bps			bps
Operating cost/Sales	79.1%	80.7%	80.6%	81.0%	80.3%	116	(66)	80.6%	81.0%	(31)
Staff cost/Sales	4.9%	6.1%	5.9%	5.7%	6.5%	162	79	6.1%	5.3%	75
Others/Sales	4.8%	4.0%	4.5%	3.6%	3.9%	(91)	29	4.0%	4.3%	(26)
EBITDA Margin	11.1%	9.2%	9.0%	9.7%	9.3%	(187)	(42)	9.3%	9.5%	(18)
Net Margin	6.3%	4.9%	5.3%	5.0%	5.0%	(131)	4	5.0%	5.0%	(2)
ETR	18.8%	19.4%	-12.8%	18.9%	15.5%	(331)	(345)	10.2%	20.2%	(1,001)

Source: Company, AMSEC Research,

Exhibit 4: 4QFY20 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	y-o-y change	q-o-q change	FY20	FY19	y-o-y change
Revenue										
Transport Division	3,270	2,990	3,058	3,203	3,227	-1.3%	0.7%	12,478	12,096	3.2%
XPS Division										
Supply Chain Solutions Division	2,654	2,391	2,413	2,368	2,078	-21.7%	-12.2%	9,250	10,189	-9.2%
TCI Seaways Division	1,088	789	854	989	1,046	-3.9%	5.7%	3,677	3,593	2.3%
Wind Power Division	7	15	30	5	6	-18.1%	28.3%	55	69	-20.8%
Intersegments/ Others	(100)	(63)	(73)	(91)	(33)	-67.3%	-64.2%	(259)	(387)	-33.0%
Total	6,918	6,121	6,282	6,473	6,257	-9.6%	-3.3%	25,134	25,561	-1.7%
EBIT										
Transport	131.6	83.0	90.7	116.6	116.7	-11.3%	0.1%	407.0	383.5	6.1%
SCM	208.4	167.5	160.1	131.4	101.2	-51.4%	-23.0%	560.2	710.3	-21.1%
Coastal	294.1	156.5	145.4	226.3	225.0	-23.5%	-0.6%	753.2	735.0	2.5%
Wind Power	(1.9)	5.3	20.4	(1.3)	(0.1)	-94.7%	-92.3%	24.3	34.1	-28.7%
Total	632.2	412.3	416.6	473.0	442.8	-30.0%	-6.4%	1,744.7	1,862.9	-6.3%
EBIT Margin						bps	bps			
Transport	4.0%	2.8%	3.0%	3.6%	3.6%	(41)	(2.3)	3.3%	3.2%	9.1
SCM	7.9%	7.0%	6.6%	5.6%	4.9%	(298.2)	(68.0)	6.1%	7.0%	(91.5)
Coastal	27.0%	19.8%	17.0%	22.9%	21.5%	(552.0)	(135.6)	20.5%	20.5%	2.8
Wind Power	-26.4%	36.1%	68.7%	-28.3%	-1.7%	2,469.4	2,656.6	44.3%	49.2%	(494.4)
Total	9.1%	6.7%	6.6%	7.3%	7.1%	(206.1)	(23.0)	6.9%	7.3%	(34.6)

Source: Company, AMSEC Research

Financials (Consolidated)**(Rs mn)****Profit and Loss Account**

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
Operating Income	23,461	27,537	27,178	25,308	30,363
Less:					
Operating expenses	19,068	22,515	22,143	20,500	24,382
Staff expenses	1,245	1,402	1,572	1,572	1,808
Selling, admin and other expenses	1,021	1,124	1,058	1,058	1,217
EBITDA	2,127	2,495	2,405	2,178	2,957
Depreciation	687	774	825	841	885
Operating profit	1,441	1,721	1,580	1,338	2,072
Other income	182	195	201	202	243
EBIT	1,623	1,916	1,782	1,540	2,315
Interest	322	374	343	313	313
Exceptional items	-	-	-	-	1
Profit before tax	1,301	1,542	1,438	1,227	2,001
Tax	287	333	159	196	320
Profit share in JV & asso.	224	251	252	201	302
PAT	1,238	1,453	1,432	1,232	1,983
EO Items	-	-	-	-	1
Net Profit	1,238	1,453	1,432	1,232	1,983
Share O/s mn	76.6	76.7	76.9	76.9	76.9
EPS Rs	16.2	19.0	18.6	16.0	25.8

Cash Flow Statement

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
PBT	1,525	1,786	1,591	1,227	2,001
Non-cash adjustments	1,005	1,141	1,231	1,154	1,198
Chg in working capital	(342)	(719)	117	127	(712)
Tax & Interest Paid	(368)	(342)	(410)	(196)	(320)
Cashflow from oper.	1,801	1,830	2,523	2,312	2,167
Capital expenditure	(1,511)	(1,259)	(1,321)	(1,000)	(1,500)
Chg in investments	(8)	56	(14)	-	-
Other invest. cashflow	(27)	(373)	(113)	-	-
Cashflow from invest	(1,546)	(1,576)	(1,448)	(1,000)	(1,500)
Issue of equity	-	12	24	-	-
Issue/repay debt	-	-	-	-	-
Interest Paid	(323)	(377)	(343)	(313)	(313)
Inc./(Dec.) Loan Funds	184	307	(517)	-	-
Dividends paid	(163)	(182)	(201)	(214)	(214)
Other finan.cashflow	-	-	67	-	-
Cashflow from finan.	(303)	(241)	(971)	(527)	(527)
Chg cash & cash eq	(48)	13	104	785	140
Open cash & cash eq	190	142	155	259	1,044
Clsq cash & cash eq	142	155	259	1,044	1,184
Free cashflow to firm	291	571	1,202	1,312	667

Key Ratios

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
PER SHARE					
EPS Rs	16.2	19.0	18.6	16.0	25.8
CEPS Rs	25.1	29.1	29.4	27.0	37.3
Book Value Rs	99.4	116.4	133.2	146.5	169.5
VALUATION					
EV / Net Sales	0.7	0.6	0.6	0.6	0.5
EV / EBITDA	7.5	6.5	6.5	6.8	5.0
P / E Ratio	9.8	8.4	8.5	9.9	6.2
P / BV Ratio	1.6	1.4	1.2	1.1	0.9
GROWTH YOY%					
Sales Growth	20.8	17.4	-1.3	-6.9	20.0
EBITDA Growth	32.4	17.3	-3.6	-9.4	35.7
Net Profit Growth	52.4	17.3	-1.4	-14.0	61.0
Gross Fixed Asset Growth	9.8	15.2	7.7	6.8	9.6
PROFITABILITY					
Gross Profit/ Net sales (%)					
EBITDA / Net Sales (%)	9.1	9.1	8.9	8.6	9.7
EBIT / Net sales (%)	6.9	7.0	6.6	6.1	7.6
NPM / Total income (%)	5.3	5.3	5.3	4.9	6.5
ROE (%)	17.6	17.6	14.9	11.5	16.3
ROCE (%)	14.8	15.6	13.2	10.7	14.6
Tax / PBT %	22.0	21.6	11.1	16.0	16.0
TURNOVER					
Net Working Cycle					
Debtors Velocity (Days)	66.1	68.3	65.4	68.0	65.0
Inventory (Days)	0.6	0.9	1.1	1.0	1.0
Creditors Velocity (Days)					
Current Ratio	3.2	2.9	3.0	3.4	3.4
Quick Ratio	3.2	2.9	3.0	3.4	3.3
LIQUIDITY					
Gross Asset Ratio	2.1	2.2	1.9	1.7	1.9
Total Asset Ratio	2.1	2.2	2.0	1.7	1.9
Net Debt-Equity Ratio	0.5	0.4	0.3	0.2	0.2
Interest Coverage	4.5	4.6	4.6	4.3	6.6
PAYOUT					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	106.7	119.0	131.0	138.9	138.9
Yield %	1.3	1.5	1.7	1.8	1.8

Source: Company, AMSEC Research;

Balance Sheet

Y/E Mar	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS :					
Share Capital	153	153	154	154	154
Reserves	7,465	8,766	10,085	11,103	12,873
T. Shareholders Funds	7,618	8,920	10,239	11,257	13,027
Minority interest	47	52	57	57	57
Non-Current Liab.					
Long term borrowings	3,953	4,142	3,686	3,686	3,686
Lease Liability	-	-	35	35	35
Deferred tax liability	445	390	302	302	302
Current Liab. & Prov.	1,915	2,656	2,515	2,345	2,778
Total Equity & Liab.	13,977	16,160	16,833	17,681	19,884
APPLICATION OF FUNDS :					
Non Current Assets					
Fixed Assets	6,258	7,268	7,483	7,642	8,257
Capital work in progress	563	40	216	216	216
Right to use	-	-	234	234	234
Goodwill	-	-	-	-	-
Noncurrent investment	1,044	1,168	1,354	1,555	1,857
Current Assets					
Current investment					
Inventories	33	53	66	56	67
Sundry debtors	4,249	5,151	4,873	4,715	5,407
Cash and bank	142	155	259	1,044	1,184
Short loans & advances	1,689	2,324	2,349	2,219	2,662
Others current assets	-	-	-	-	-
Total Assets	13,977	16,160	16,833	17,681	19,884
Net working capital	4,055	4,872	4,772	4,645	5,358
Total Gross Debt	3,953	4,142	3,686	3,686	3,686
Total Net debt	3,811	3,987	3,426	2,642	2,501
Total capital employed	12,062	13,504	14,318	15,336	17,106

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Hold/Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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