PhillipCapital

Transport Corporation of India (TRPC IN)

Integrated for growth

INDIA | LOGISTICS | Initiating Coverage

20 July 2020

Transport Corporation of India (TCI), a dominant multimodal logistics player with a pan-India network, would be one of the biggest beneficiaries of GST implementation. This is based on its integrated business for distribution, warehousing, and inventory management and capability in providing road, rail and coastal transportation.

Specific focused business segments and multi-modal national network: TCI has three strategic business units: (1) TCI Freight: For heavy cargo services through road, rail, and sea; this contributed to 52% of consolidated revenue in FY20; (2) TCI Supply Chain (SCM): This offers single-window solutions to manage logistics operations of big industries (34% of revenue). (3) TCI Seaways: Coastal shipping, NVOCC (Non-Vessel Operating Common Carrier), and project cargo (13% of revenue). It also has a JV with CONCOR to provide end-to-end multi-modal solutions and a JV with Mitsui for auto distribution logistics. While the business verticals operate as individual entities, they create synergy together, and allow TCI to offer a broad range of end-to-end customized services to a wide range of domestic and international clients.

Supply-chain business to benefit from outsourcing, warehousing, GST-driven consolidation: TCI is a Lead Logistics Provider – LLP, often called 4th-party logistics providers, can manage every aspect of supply chain, including managing other 3PLs, offering customized logistics solutions, warehousing, and information management solution. TCI manages c.12mn sq. ft. of warehousing space and aims to be significant player in apparel, retail, and FMCG. It manages high-margin e-fulfilment centres and back-end operations for e-commerce. Post covid, cargo movement on roads is significantly disturbed. TCI is benefiting because of its rail and coastal services on which it has developed efficient and reliable supply chains for customers. Its SCM division will benefit from regulatory reforms to bring transparency and a level-playing field for organized players. However, its revenue and profitability have taken a short-term hit due to weakness in the auto segment, Covid-19, and the economic slowdown.

Growth in shipping to improve margins and lower effective tax rate: TCI will benefit from the government's initiative to increase the share of water transport in India. TCI's Seaways division has 7 ships with a total capacity of 91,880 DWT; out of these, 3 are deployed on the east coast for bulk movement and 4 on the west coast, mainly for container cargo. Profits from shipping operations have benefits of tonnage tax, which help lower TCI's effective tax outgo. EBITDA margins are at 25-30%, much higher than 10-12% in SCM and just 3-4% in freight. Growth in shipping will support margins and lower effective tax for the company.

Expanding the network strength, digitization in challenging times: TCI has increased its capital expenditure in order to capitalize on opportunities in warehousing, supply chain, and shipping. The freight division is asset-light; capex is mainly done in supply chain, shipping (fleet addition), warehousing, network expansion, and IT. It had a capital expenditure of Rs 5.2bn over FY17-20 and expects capex of c.Rs 4.3bn over FY21-23. With cash profit of c.Rs 5.8bn over FY21-23, the D/E will remain comfortable at 0.4x, while debt-to-EBITDA would be below 2x.

Valuation and outlook: TCI trades at 10.7x FY22 earnings of Rs 15.6 per share. It has a strong history of maintaining growth in different economic cycles. It is best placed to provide a cost-effective solution to the customized needs of its clients due to its national network (historical asset base at strategic locations) and multimodal capabilities. The level playing field for organized players post GST and E-way Bill would help the company to increase its market share in logistics. We value the company at 15x FY22 EPS to arrive at a target of Rs 235. Initiate with a Buy rating.

BUY

CMP Rs 167 / TARGET RS 235 (+40%)

SEBI CATEGORY: SMALL CAP

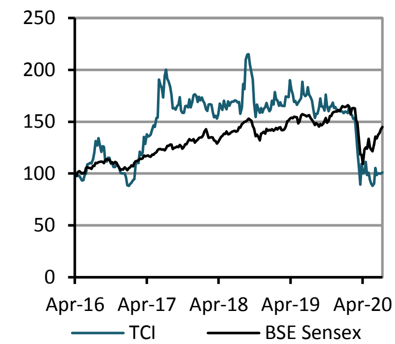
COMPANY DATA

O/S SHARES (MN) :	77
MARKET CAP (RSBN) :	13
MARKET CAP (USDBN) :	0.2
52 - WK HI/LO (RS) :	312 / 121
LIQUIDITY 3M (USDMN) :	0.2
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 20	Mar 20	Dec 19
PROMOTERS :	66.9	66.9	66.8
FII / NRI :	2.4	2.5	2.4
FI / MF :	9.5	9.4	9.4
NON PRO :	9.0	9.7	9.7
PUBLIC & OTHERS :	12.2	11.6	11.8

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY20E	FY21E	FY22E
Net Sales	27178	20968	27647
EBIDTA	2405	1434	2274
Net Profit	1531	505	1201
EPS, Rs	19.9	6.6	15.6
PER, x	8.4	25.4	10.7
EV/EBIDTA, x	7.0	11.7	7.5
P/BV, x	1.3	1.2	1.1
ROE, %	15.0	4.8	10.3
Debt/Equity (%)	41.0	41.1	39.7

Source: PhillipCapital India Research Est.

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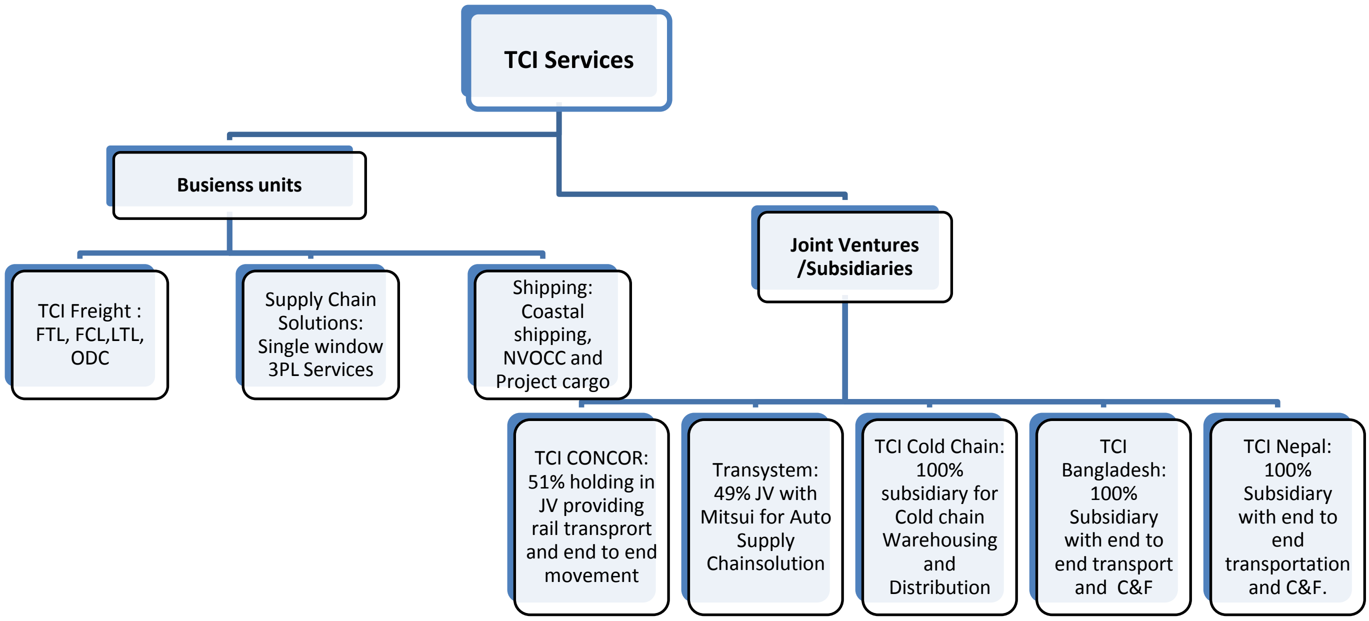
National network with multimodal capabilities to benefit from formalization

- TCI is one of the oldest logistics players in India, established in 1958.
- Has 700+ own offices and operates 9,000+ trucks daily.
- It will be a major beneficiary of evolving changes in the logistics sector, with its presence across the value chain – road, rail, coastal, 3PL, and warehousing, and the cold chain business.
- It is best placed to provide cost-effective solutions to the customized needs of its clients due to its national network and multimodal capabilities.
- The level playing field for organized players after GST and E-way bill would help the company to increase its market share in logistics.

Capability to offer multimodal solutions with a pan-India network



Source: Company, PhillipCapital Research

The company has three business divisions: (1) TCI Freight (2) TCI Supply Chain Services and (3) TCI Seaways

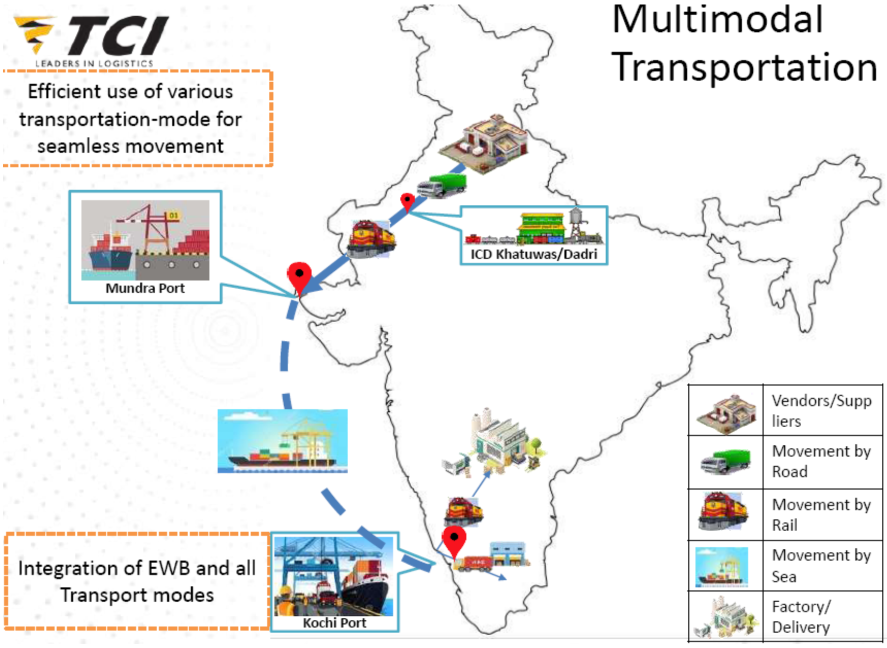
- The cold-chain business is through a 100% subsidiary – TCI Cold Chain.
- Transystem International (TLI) is a joint venture between TCI (49%) and Mitsui & Co. Ltd. (51%). TLI is a logistical partner for Toyota Kirloskar and other Japanese companies providing complete logistics solutions from inbound Logistics (IBL) to Outbound Logistics of Completely Built Units (CBU) and spare parts management, warehousing, and distribution.
- TCI has a JV with Concor – the largest container rail player in India for rail movement, which provides multimodal end-to-end solutions to customers. TCI Concor provides bulk multi-modal logistics solutions by rail and road by leveraging benefits of the extensive networks of TCI and Concor. It moves goods in a more environmentally responsible manner.

Domestic logistics market and TCI presence

	Full truck	Less than truck	Rail	3PL	Coastal
Entry barrier	Low	Medium	High	High	High
Industry structure	Fragmented	Semi-organized	Organized	Organized	Organized
Market size ($ bn0	100	10	16	6	1
TCI Revenue growth	10%	10%	12%	18%	10%
TCI EBITDA margin	2-4%	8-11%	3-6%	8-12%	25-35%
TCI presence	TCI Freight	TCI Freight	TCI-Concor JV	SCM	Seaways

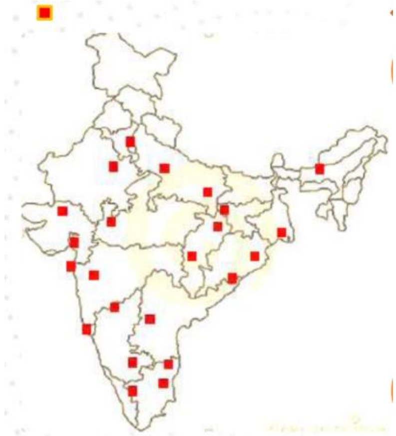
Source: Company

Multimodal player at the national level; focusing on domestic cargo movement



Source: Company

Hubs for freight business with capabilities in both full truck load (FTL) and less than truck load (LTL)



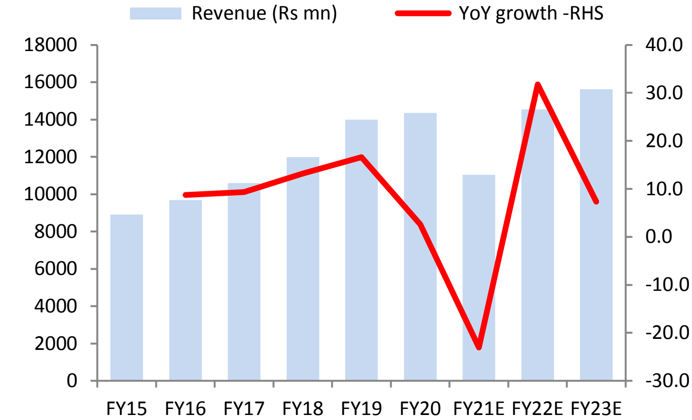
TCI freight division to be a beneficiary of regulatory changes

TCI Freight, TCI's largest division, contributing c.52% of its total revenue, offers total multimodal transportation solutions through road and rail – viz. full truck load, less than truck load, and over dimensional cargo (ODC). It is focusing on the higher-margin less than truck load (LTL) business (c.33% revenue share) to utilize its existing branch network and manpower. The division has a fully automated systems for information flow and real-time tracking of cargo movement with a single-window solution.

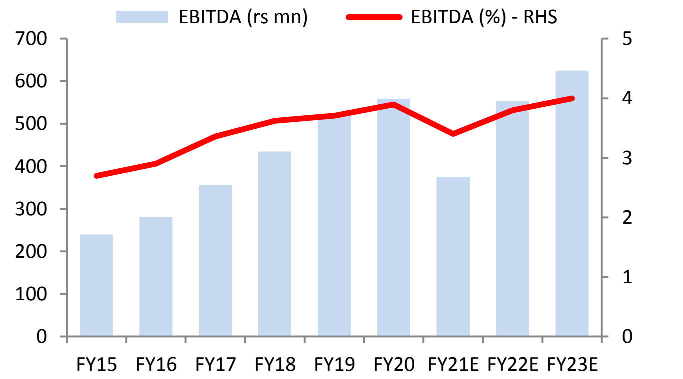
The freight division has a legacy of over six decades of service in a fragmented and unorganised market, which should now pay off with the market shifting towards organised players. This division has 700+ owned branches, 25 IT-enabled hubs, a dedicated fleet of c. 3,500 trucks, handling equipment, and trailers. It also provides storage facilities for traders and manufacturers with infrastructure across key markets.

This division has reported revenue CAGR of 10% to Rs 14.3bn over FY15-20 and EBITDA margin improvement to 3.9% in FY20 from 2.7% in FY15 with an increase in the share of its LTL business. Revenue CAGR in the freight division will reduce to c.3% (to Rs 15.6bn) over FY20-23 due to the economic slowdown; we expect freight revenue to decline by 23% to Rs 11bn in FY21 due to lockdown and Covid-19 impact.

Freight division revenue growth



Freight division margin support from LTL



Source: Company, PhillipCapital India Research Estimates

Supply chain business to benefit from outsourcing, warehousing

TCI has developed supply chain and warehousing capabilities well ahead of implementation of GST, which should help the company to gain market share. The company is a Lead Logistics Provider (LLP) offering customized logistics solutions, warehousing, planning and information management solution to varied and critical sectors of the economy like auto, telecom, health care, retail & consumer products, chemicals and cold chain.

A lead logistics provider (LLP) is called a 4th-party logistics provider (4PL) and directs every aspect of the supply chain, including managing other 3PLs, overseeing transportation management, and warehouse operations

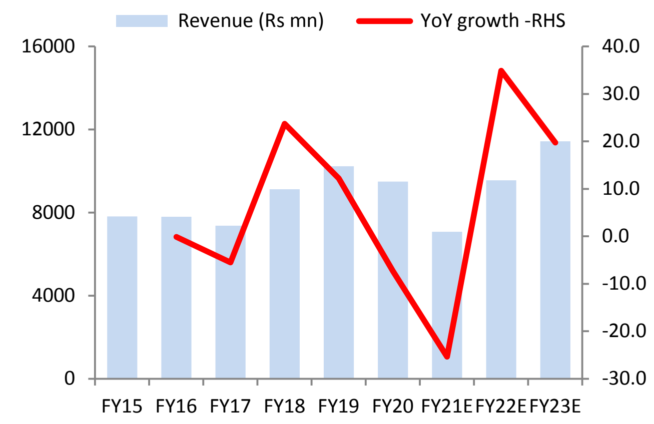
It has invested in IT capabilities and developed domain knowledge in handling large-sized modern warehousing and distribution centres. It currently operates c.12mn sq. ft. of warehousing and a fleet of 4,000 vehicles (1,020 owned); it has 8 fulfilment centres to serve the complete e-commerce chain. These handle c.100,000 orders and c.20,000 deliveries per day for both B2B and B2C customers. Its recent foray into cold-chain warehousing and distribution of perishable items has increased the scope of operation to pharma, FMCG, and QSR for the company. Though the supply-chain business offers a long-term CAGR of 12-15%, it is impacted in the short term due to a slowdown in the auto sector, which accounts for c.80% of revenue currently. The company has identified growth sectors, including retail - apparel, FMCG, pharma, food processing and e-commerce, where it aims to be a significant player in warehousing.

SCS division is a moderately asset-heavy model

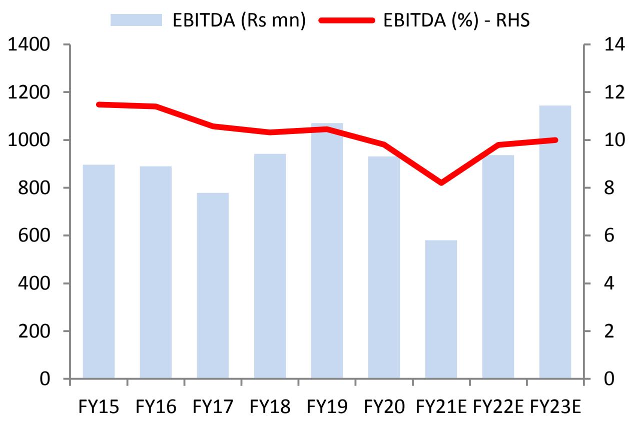
Unique positioning of 3PL/4PL SCM business

Customers perspective	TCI business model advantage	Sectors
• Optimum controls on operations and hence better KPI (Key Performance Indicators) management. • High ability to offer customized solutions. • Long-term retention possible, as it creates customer confidence.	• Internal management and control. • Moderate ownership of assets enables it to control the outside market • Able to control pricing and cost	• Automobile and spare parts • Pharma • Chemical • FMCG • Health care • Cold chain

Supply chain revenue growth



SCM short-term impact on margins due to auto slowdown



Source: Company, PhillipCapital India Research Estimates

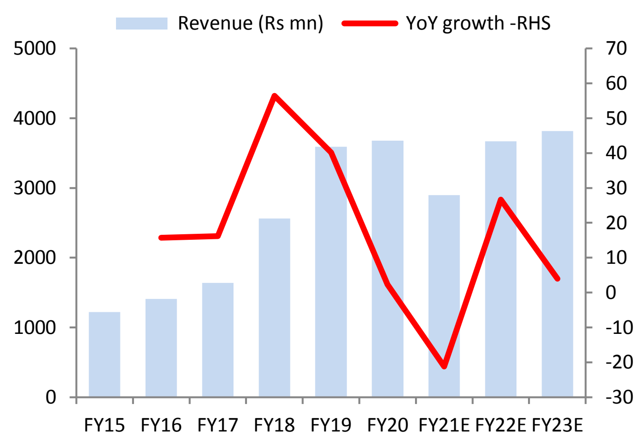
Growth in shipping to improve margins and lower effective tax rate

TCI will benefit from the government's initiative to increase share of water transport in India to reduce the cost of transportation. It has started a shipping division since February 1995 and provides ship management, charter, and stevedoring services.

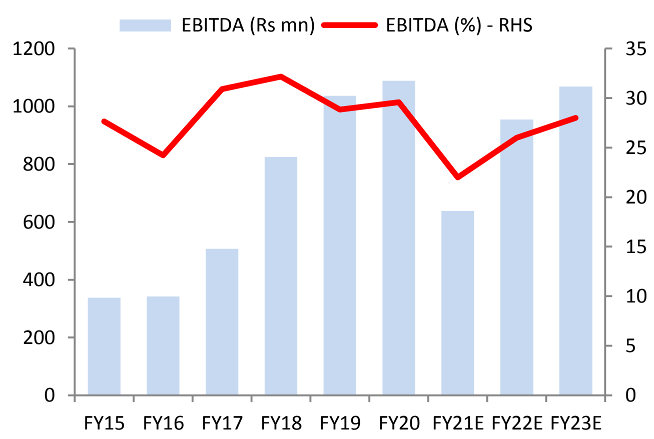
TCI Seaways division has seven ships with a total capacity of 91,880 DWT, out of which three are deployed in the Chennai-Andaman-Chennai and Vizag-Andaman-Vizag coastal sectors. The cargo on the east coast to Port Blair largely consists of cattle, perishables, and reefer and general cargo to the island; it ferries back betel nuts, coconut powder and household goods to the mainland from Andaman. Its other four ships are deployed on the west coast, providing services for container cargo from Kandla and Mundra to south Kochi and Tuticorin. The management plans to add one vessel every 15-18 months. The profits from shipping operations have benefits of tonnage tax (it is a fixed tax, based on capacity of fleet and not on the reported profit) resulting in lower effective tax for the company. EBITDA margins in shipping are 25-30% compared with margins of 10-12% in SCM and 3-4% in freight. The growth in shipping will also support margin improvement and lower effective tax for the company. The utilization level in shipping has come down to c.50% in June 2020 due to Covid-19 and lockdown has impact the movement of Tiles and Marbles which is major commodity moved thorough coastal shipping.

The profits from shipping operations have benefits of tonnage tax (it is a fixed tax based on capacity of fleet and not on the reported profit) and effective tax rate on shipping profits is c.4-5%, resulting in lower effective tax for the company

Shipping revenue supported by fleet addition



Shipping EBITDA margin trend



Source: Company, PhillipCapital India Research Estimates

Key financials

- TCI's revenue CAGR looks low at 2.4% to Rs 27.2bn over FY15-20 due to the de-merger of its express business in FY16 into TCI Express, a separate listed entity. Excluding this express business, revenue CAGR was 9.1% over FY15-20.
- Revenue from the freight segment grew 10% to Rs 14.4bn over FY15-20.
- Capacity addition in shipping resulted in revenue CAGR of 24.7% to Rs 3.6bn while revenue CAGR from SCM was 4% to Rs 9.5bn.
- We believe the company has a strong infrastructure base and systems in place for high growth in the medium to long term.
- However, economic weakness (particularly the auto sector) and Covid depressed the performance in FY20. It lost c.Rs 1bn revenue due to the lockdown in March 2020. FY21 financials will also be negatively affected.
- TCI has maintained health liquidity to face the current challenging environment. Its working capital utilization has come down to 45% in June 2020 from 73% in FY20 (out of its total limit of Rs 2.8bn). It has taken board approval to raise Rs 2bn to improve liquidity in case the Covid-19 situation worsens.
- We expect lower revenue CAGR of 4.2% to Rs 30.7bn over FY20-23.

Key revenue assumptions

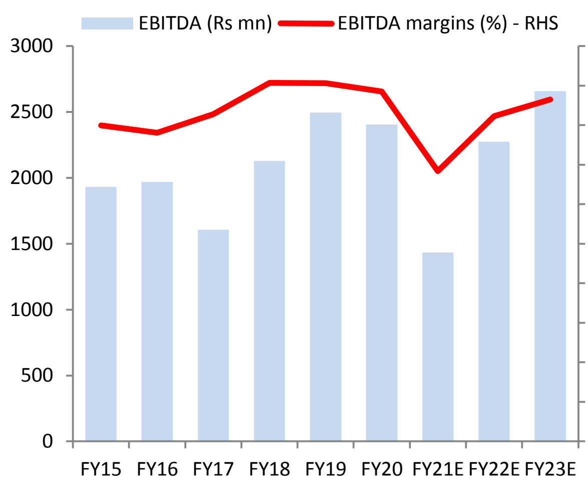
Year	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY15-20	CAGR FY20-23
Revenue	24167	25214	19427	23461	27537	27178	20968	27647	30740	2.4%	4.2%
Revenue (Ex XPS)	17565	18545	19427	23461	27537	27178	20968	27647	30740	9.1%	4.2%
EBITDA	1932	1968	1607	2127	2495	2405	1434	2274	2658	4.5%	3.4%
EBITDA (Ex XPS)	1412	1422	1607	2127	2495	2405	1434	2274	2658	11.2%	3.4%
Freight	8908	9685	10590	11992	13988	14351	11044	14552	15622	10.0%	2.9%
SCM	7813	7802	7374	9126	10241	9490	7082	9553	11441	4.0%	6.4%
Shipping	1220	1411	1639	2564	3593	3677	2897	3670	3817	24.7%	1.2%

Source: Company, PhillipCapital India Research Estimates

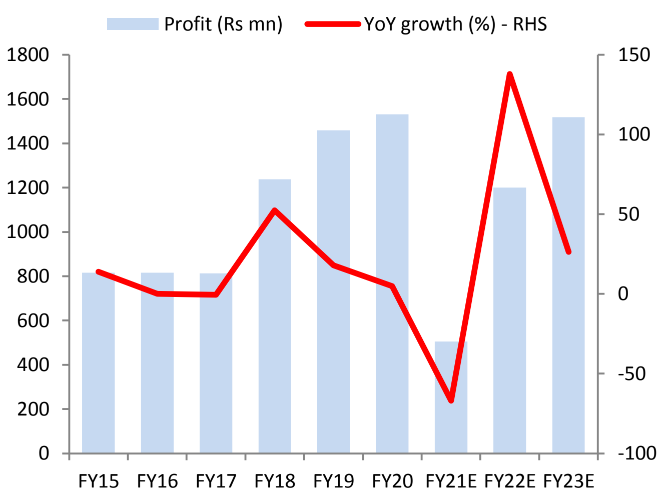
Operating profits and margin

- The company has been able to improve margins in its freight business with a focus on the high-margin LTL business.
- Margins in SCM were dented due to slowdown in the auto segment.
- Improvement in margins is supported by growth in the high-margin shipping business.

EBITDA and margin trend



PAT CAGR of 13.4% to Rs 1.5bn over FY15-20

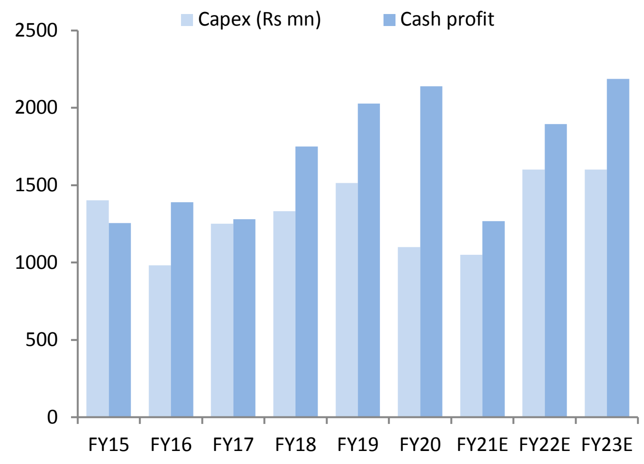


Source: Company, PhillipCapital India Research Estimates

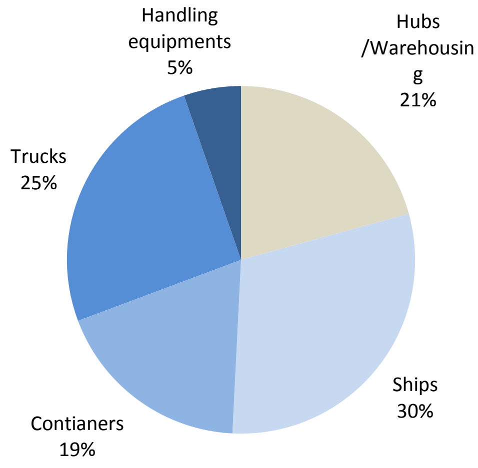
Capacity expansion in SCM and coastal shipping

- TCI has increased capital expenditure to capitalize on the opportunities in warehousing, supply chain and shipping. Its freight division is asset light, while capex is mainly in supply chain and shipping for the addition of network hubs, warehouse and handling equipment.
- We have assumed capex of Rs 4.3bn over FY20-23 compared to total capital expenditure of Rs 5.2bn over FY17-20.
- With cash profit of c.Rs 5.8bn over FY21-23, the D/E is likely to remain comfortable at 0.4x, while debt-to-EBITDA would be below 2x. .

Strong cash flows to support capex



Capex break up at FY17-20

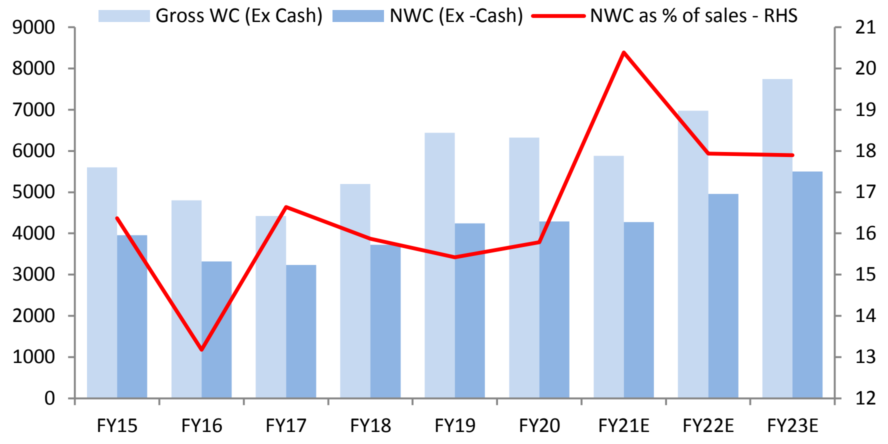


Source: Company, PhillipCapital India Research Estimates

Working capital to remain range bound

- TCI has a gross working capital (ex-cash) of Rs 6.3bn in FY20, which is c.23% of sales and net working capital of Rs 4.3bn, i.e., c.16% of sales. Freight business is working-capital-heavy compared to supply chain and shipping. The company has controlled working capital in challenging time.
- Total receivable days are c.65 in FY20, which should increase to c.76 days mainly due to decline in revenue due to Covid-19.
- We expect gross and net working capital to remain at c.25% and c.18% of sales respectively.

Working capital trend

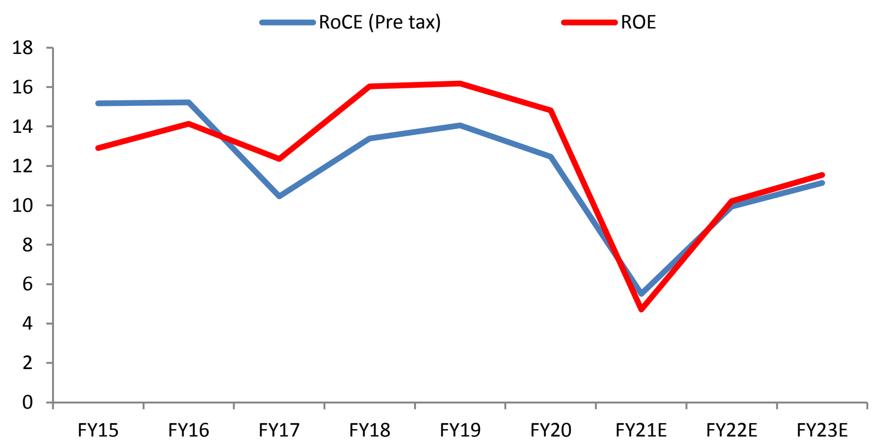


Source: Company, PhillipCapital India Research Estimates

Return ratios

TCI's RoCE improved from 10.5% in FY17 to touch 14.1% in FY19 due to improvement in margins while it impacted in FY20 due to Covid-19 to 12.5%. Its gross asset turnover remained at c.3x (sales / gross fixed asset). With capex in warehousing and fleet addition, RoCE will fall in the short term to c.12% in FY22.

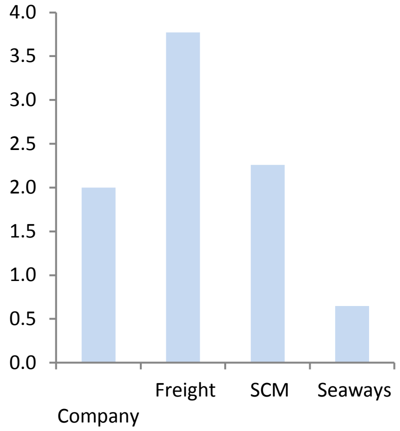
Return ratios to decline due to lower asset tun



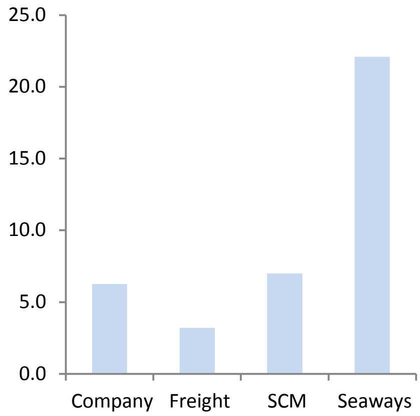
Source: Company, PhillipCapital India Research Estimates

Segmental return ratios are comparable

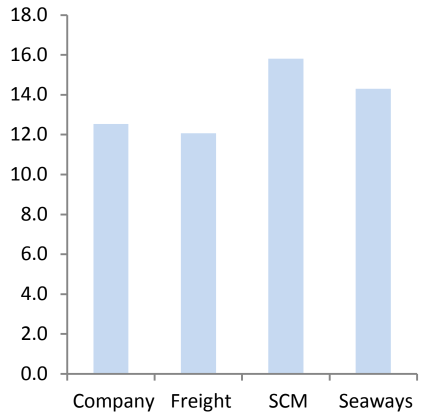
Asset turn (x)



EBIT margins (%)



RoCE %

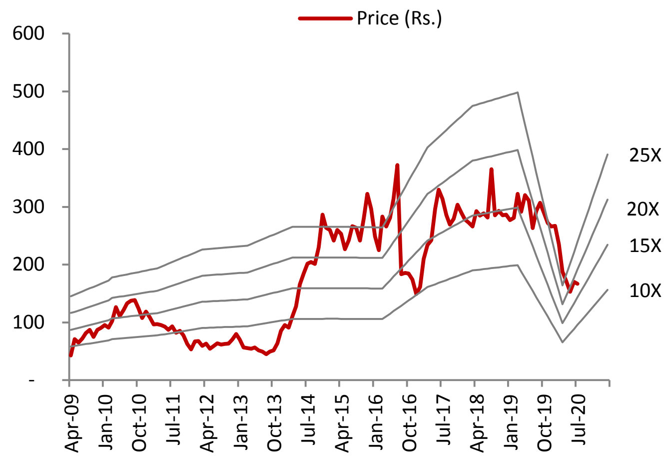


Source: Company, PhillipCapital India Research Estimates

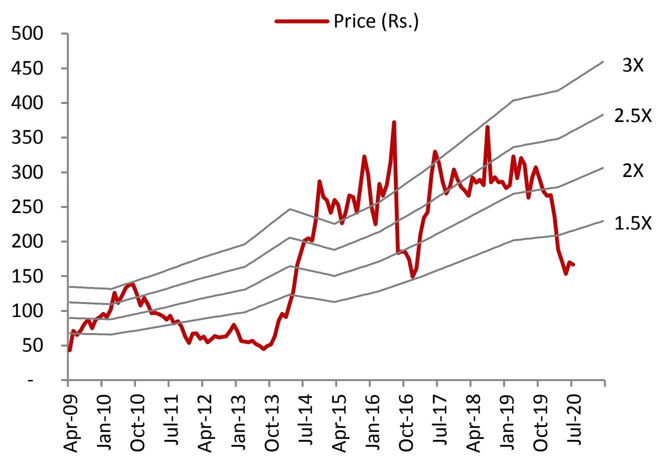
Valuation

- TCI is trading at 10.7x FY22 earnings of Rs 15.6 per share. It has a strong history of maintaining growth in different economic cycles due to diverse business segments and customers.
- It is best placed to provide cost-effective solutions to customized needs of its clients due to a national network (historical asset base at strategic locations) and multimodal capabilities.
- The level playing field for organized players after GST and E-way bill will help the company to increase its market share in logistics.
- We value the company at 15x FY22 with a target of Rs 235.

One-year forward PE chart



P/BV trend



Source: Company, PhillipCapital India Research Estimates

Financials

Income Statement

Y/E Mar, Rs mn	FY20	FY21E	FY22E	FY23E
Net sales	**27,178**	**20,968**	**27,647**	**30,740**
Growth, %	-1	-23	32	11
Other income	0	0	0	0
Total income	27,178	20,968	27,647	30,740
Freight expense	-22,143	-17,089	-22,533	-25,053
Employee expenses	-1,572	-1,174	-1,548	-1,721
Other Operating expenses	-1,058	-1,271	-1,293	-1,307
EBITDA (Core)	**2,405**	**1,434**	**2,274**	**2,658**
Growth, %	(3.6)	(40.4)	58.6	16.9
Margin, %	8.9	6.8	8.2	8.6
Depreciation	-825	-812	-873	-905
EBIT	**1,580**	**622**	**1,401**	**1,753**
Growth, %	(8.2)	(60.7)	125.3	25.1
Margin, %	5.8	3.0	5.1	5.7
Interest paid	-343	-348	-371	-383
Other Non-Operating Income	201	195	204	215
Non-recurring Items	-99	0	0	0
Pre-tax profit	**1,340**	**468**	**1,235**	**1,585**
Tax provided	-159	-89	-210	-269
Profit after tax	**1,181**	**379**	**1,025**	**1,316**
Others (Minorities, Associates)	252	126	176	202
Net Profit	**1,432**	**505**	**1,201**	**1,518**
Growth, %	4.9	(67.0)	137.9	26.4
Net Profit (adjusted)	**1,531**	**505**	**1,201**	**1,518**
Unadj. shares (m)	77	77	77	77

Balance Sheet

Y/E Mar, Rs mn	FY20	FY21E	FY22E	FY23E
Cash & bank	259	364	378	403
Debtors	4,873	4,366	5,302	5,895
Inventory	66	72	80	88
Loans & advances	268	300	336	376
Other current assets	1,121	1,143	1,257	1,383
Total current assets	6,586	6,245	7,353	8,145
Investments	1,799	1,978	2,175	2,240
Gross fixed assets	10,527	11,624	12,944	14,744
Less: Depreciation	-3,043	-3,855	-4,728	-5,633
Add: Capital WIP	216	183	183	183
Net fixed assets	7,699	7,952	8,399	9,294
Non-current assets	234	234	234	234
Total assets	**16,319**	**16,410**	**18,161**	**19,914**
Current liabilities	1,934	1,494	1,894	2,105
Provisions	102	112	124	136
Total current liabilities	2,036	1,606	2,017	2,241
Non-current liabilities	3,988	4,142	4,420	4,569
Total liabilities	6,024	5,748	6,437	6,810
Paid-up capital	154	154	154	154
Reserves & surplus	10,085	10,451	11,514	12,894
Shareholders' equity	10,295	10,662	11,724	13,104
Total equity & liabilities	**16,319**	**16,410**	**18,161**	**19,914**

Cash Flow

Y/E Mar, Rs mn	FY20	FY21E	FY22E	FY23E
Pre-tax profit	1,340	468	1,235	1,585
Depreciation	825	812	873	905
Chg in working capital	-315	5	-694	-555
Total tax paid	-417	-89	-210	-269
Cash flow from operating activities	**1,432**	**1,197**	**1,204**	**1,666**
Capital expenditure	-1,216	-1,065	-1,320	-1,800
Chg in investments	112	-179	-197	-65
Cash flow from investing activities	**-1,104**	**-1,244**	**-1,517**	**-1,865**
Free cash flow	329	-48	-313	-200
Equity raised/(repaid)	496	470	470	470
Debt raised/(repaid)	-405	155	277	149
Dividend (incl. tax)	-101	-128	-127	-126
Cash flow from financing activities	**246**	**622**	**796**	**696**
Net chg in cash	575	575	484	496

Valuation Ratios

Y/E Mar, Rs mn	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	19.9	6.6	15.6	19.8
Growth, %	4.7	(67.0)	137.9	26.4
Book NAV/share (INR)	133.3	138.1	151.9	169.9
FDEPS (INR)	19.9	6.6	15.6	19.8
CEPS (INR)	32.0	17.1	27.0	31.6
CFPS (INR)	19.1	13.0	13.0	18.9
DPS (INR)	1.5	1.5	1.5	1.5
Return ratios				
Return on assets (%)	9.5	4.4	8.1	8.9
Return on equity (%)	15.0	4.8	10.3	11.6
Return on capital employed (%)	10.9	5.0	9.0	10.0
Turnover ratios				
Asset turnover (x)	2.3	1.7	2.1	2.2
Sales/Total assets (x)	1.7	1.3	1.6	1.6
Sales/Net FA (x)	3.6	2.7	3.4	3.5
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	65.4	76.0	70.0	70.0
Inventory days	0.9	1.3	1.1	1.0
Payable days	9.4	9.7	9.8	9.9
Working capital days	57.6	74.4	65.5	65.3
Liquidity ratios				
Current ratio (x)	3.2	3.9	3.6	3.6
Quick ratio (x)	3.2	3.8	3.6	3.6
Interest cover (x)	4.6	1.8	3.8	4.6
Total debt/Equity (%)	41.0	41.1	39.7	36.6
Net debt/Equity (%)	38.5	37.6	36.5	33.6
Valuation				
PER (x)	8.4	25.4	10.7	8.4
PEG (x) - y-o-y growth	1.8	(0.4)	0.1	0.3
Price/Book (x)	1.3	1.2	1.1	1.0
EV/Net sales (x)	0.6	0.8	0.6	0.6
EV/EBITDA (x)	7.0	11.7	7.5	6.5
EV/EBIT (x)	10.6	27.0	12.2	9.8

Source: Company, PhillipCapital India Research Estimates