

# TRANSPORT CORPORATION OF INDIA

## Near-term pain; valuation favourable

India Equity Research | Logistics

Transport Corporation of India (TCI) reported weak Q4FY20 with 10%/25% sales/PAT decline. While FY20 was already challenging given the sluggish goods movement, lockdown in the last days of March affected the company's best-performing month. The sustained lockdown and immediate demand destruction due to COVID-19 indicate that a poor FY21 is in store. However, we are bullish on TCI as an improving business mix should lift its margin and returns profile over the next three-four years, which can potentially re-rate the stock. Moreover, the stock trades at 8x FY22E PE, which is attractive and implies limited downside. Retain 'BUY' with revised TP of INR210 (INR220 earlier) as we trim FY21/22E EPS 38%/4% factoring the current tepid economic environment.

### Weak performance along expected lines

Q4FY20, as expected, was weak as TCI reported sales/PAT decline of 10%/25%. Freight division's revenue was flat, but margin contracted ~50bps as operations took a hit during the last few days of March. Supply chain division turned in a weak show with its revenue dipping ~21% YoY and margin contracting ~270bps YoY given heavy reliance on the auto sector (which was already trudging through the economic slowdown) exacerbated by COVID-19 impact. Seaways revenue was flat YoY and reported EBIT margin of 22% (27% in Q4FY19).

### Beyond the immediate near term

Our investment rationale for TCI is based on improvement in its underlying business mix over the next three-four years. The company is targeting higher-margin LTL mix of 40% in the freight division (~30% currently). The supply chain division is part of the fast-growing 3PL category, which is expected to log 13-15% CAGR over five-seven years. That said, logistics (especially trucking) due to labour shortage and overall economic scenario, has been severely impacted, and in our view, the company's efforts to effect these positive changes will be pushed out at least three-four quarters as current focus will remain on business conservation.

### Outlook and valuation: Retain 'BUY'

Factoring the current economic environment, we are revising down FY20/21 estimates 38%/4%. We see TCI's story as one of moderate growth and believe the market is undervaluing the business potential. We retain 'BUY' with revised SOTP-based target price of INR210 (from INR220), implying FY22E PE of 10x.

#### Financials

(INR mn)

Year to March	Q4FY20	Q4FY19	% Chg	Q3FY20	% Chg	FY20	FY21E	FY22E
Net revenues	6,678	7,427	(10.1)	7,063	(5.5)	27,178	21,987	28,975
EBITDA	586	787	(25.5)	648	(9.6)	2,405	1,722	2,765
Adjusted Profit	362	484	(25.2)	344	5.3	1,432	825	1,500
Adjusted Diluted EPS	4.7	6.3	(25.5)	4.4	5.3	18.5	10.7	19.4
Diluted P/E (x)						8.6	14.9	8.2
ROAE (%)						10.3	5.6	9.5

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Value

#### MARKET DATA (R: TCIL.BO, B: TRPC IN)

CMP	: INR 165
Target Price	: INR 210
52-week range (INR)	: 321 / 121
Share in issue (mn)	: 76.8
M cap (INR bn/USD mn)	: 13 / 277
Avg. Daily Vol. BSE/NSE ('000)	: 29.2

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	66.9	66.8	66.8
MF's, FI's & BKs	10.1	9.9	12.4
FII's	1.8	1.8	1.8
Others	21.3	21.4	18.9
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	(9.9)	(7.9)
3 months	(24.4)	(40.8)	(16.4)
12 months	(24.6)	(52.8)	(28.1)

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## Financial snapshot

(INR mn)

Year to March	Q4FY20	Q4FY19	% change	Q3FY20	% change	FY20	FY21E	FY22E
Net revenues	6,678	7,427	(10.1)	7,063	(5.5)	27,178	21,987	28,975
Gross profit	1,272	1,489	(14.5)	1,271	0.1	5,036	3,956	5,676
Other expenses	266	352	(24.5)	240	10.6	1,058	825	1,073
Operating expenses	5,406	5,939	(9.0)	5,792	(6.7)	22,143	18,031	23,299
EBITDA	586	787	(25.5)	648	(9.6)	2,405	1,722	2,765
Depreciation	208	202	2.8	215	(3.4)	825	853	877
EBIT	378	585	(35.3)	433	(12.7)	1,580	868	1,888
Other income	68	50	34.3	57	18.2	201	242	104
Add: Exceptional items	57	47	21.5	19	200.5	153	200	220
Profit before tax	419	586	(28.6)	420	(0.4)	1,591	964	1,863
Provision for taxes	57	102	(44.4)	77	(25.8)	159	139	363
Minority interest								
Reported net profit	362	484	(25.2)	344	5.3	1,432	825	1,500
Adjusted Profit	362	484	(25.2)	344	5.3	1,432	825	1,500
Diluted shares (mn)	78	77		78		77	77	77
Adjusted Diluted EPS	4.7	6.3	(25.5)	4.4	5.3	18.5	10.7	19.4
Diluted P/E (x)	-	-		-		8.6	14.9	8.2
EV/EBITDA (x)	-	-		-		6.6	8.7	5.5
ROAE (%)	-	-		-		10.3	5.6	9.5
As % of net revenues								
Employee cost	6.3	4.7		5.4		5.8	6.4	6.3
Other expenses	4.0	4.7		3.4		3.9	3.8	3.7
Operating expenses	80.9	80.0		82.0		81.5	82.0	80.4
EBITDA	8.8	10.6		9.2		8.9	7.8	9.5
Reported net profit	5.4	6.5		4.9		5.3	3.8	5.2

## Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 12million square feet of warehousing space.

## Investment Theme

We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high-margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for 15-17% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential of TCIL's 3PL segment by at least 25-30%.

## Key Risks

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis.

## Financial Statements

### Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
<b>Macro</b>				
GDP(Y-o-Y %)	6.8	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
<b>Sector</b>				
Logistics sector size (USD bn)	218	238	259	-
<b>Company</b>				
TCI Freight growth (%)	17	3	(25)	33
TCI Freight EBITDA margin (%)	4	4	3	4
Realisation per tonne per km (INR)	2	2	2	2
TCI Seaways EBITDA margin (%)	31	32	22	28
Realisation per DWT	109,321	85,000	85,000	85,000
TCI Seaways growth (%)	39	4	(9)	36
TCI Corp and Others	52	52	40	45
Ship capacity (DWT)	63,380	91,880	91,880	91,880
Tonnage for fleet for 1 year (mn tonne km)	4,936	5,289	4,202	5,289
TCI Supply Chain Solutions growth (%)	11	(9)	(25)	34

### Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	27,537	27,178	21,987	28,975
Gross profit	5,021	5,036	3,956	5,676
Employee costs	1,402	1,572	1,409	1,838
Other Expenses	1,124	1,058	825	1,073
Operating expenses	22,515	22,143	18,031	23,299
Total operating expenses	25,041	24,773	20,265	26,210
EBITDA	2,495	2,405	1,722	2,765
Depreciation	774	825	853	877
EBIT	1,721	1,580	868	1,888
Less: Interest Expense	374	343	347	349
Add: Other income	195.1	201.2	242.02	104.22
Profit Before Tax	1,542	1,438	764	1,643
Less: Provision for Tax	333	159	139	363
Associate profit share	244	153	200	220
Reported Profit	1,453	1,432	825	1,500
Adjusted Profit	1,453	1,432	825	1,500
Shares o /s (mn)	77	77	77	77
Adjusted Basic EPS	18.8	18.6	10.7	19.4
Diluted shares o/s (mn)	77	77	77	77
Adjusted Diluted EPS	18.8	18.5	10.7	19.4
Adjusted Cash EPS	28.8	28.0	21.7	30.8
Dividend per share (DPS)	2.0	2.0	1.0	2.0
Dividend Payout Ratio(%)	10.6	10.7	9.1	10.2

### Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Gross margin	18.2	18.5	18.0	19.6
Operating expenses	4.1	3.9	3.8	3.7
Interest Expense	1.4	1.3	1.6	1.2
EBITDA margins	9.1	8.9	7.8	9.5
EBIT margins	6.2	5.8	3.9	6.5
Net Profit margins	5.3	5.3	3.8	5.2

### Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	17.2	(1.3)	(19.1)	31.8
EBITDA	15.3	(3.6)	(28.4)	60.6
Adjusted Profit	17.3	(1.4)	(42.4)	81.8
EPS	16.4	(1.4)	(42.4)	81.8

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	153	154	154	154	
Reserves & Surplus	8,766	10,085	10,646	11,744	
Shareholders' funds	8,920	10,239	10,800	11,898	
Minority Interest	52	57	47	47	
Long term borrowings	1,864	1,511	1,448	1,448	
Short term borrowings	2,278	2,210	2,538	2,588	
Total Borrowings	4,142	3,720	3,985	4,035	
Long Term Liabilities	20	19	19	19	
Def. Tax Liability (net)	390	302	299	299	
<b>Sources of funds</b>	<b>13,523</b>	<b>14,337</b>	<b>15,151</b>	<b>16,298</b>	
Gross Block	9,326	10,601	11,361	12,561	
Net Block	7,263	7,713	7,718	8,045	
Capital work in progress	40	216	216	216	
Intangible Assets	5	5	6	6	
Total net fixed assets	7,308	7,933	7,940	8,266	
Non current investments	1,168	1,354	1,619	1,619	
Cash and Equivalents	155	259	1,400	1,182	
Inventories	53	66	27	36	
Sundry Debtors	5,151	4,873	3,760	4,941	
Loans & Advances	241	225	233	233	
Other Current Assets	1,342	1,652	1,615	1,615	
Current Assets (ex cash)	6,787	6,816	5,636	6,825	
Trade payable	674	639	466	617	
Other Current Liab	1,962	1,857	1,445	1,445	
Total Current Liab	2,636	2,496	1,912	2,062	
Net Curr Assets-ex cash	4,150	4,320	3,724	4,763	
<b>Uses of funds</b>	<b>13,523</b>	<b>14,337</b>	<b>15,151</b>	<b>16,298</b>	
BVPS (INR)	115.7	132.8	140.0	154.3	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	1,453	1,432	825	1,500	
Add: Depreciation	774	825	853	877	
Interest (Net of Tax)	250	230	232	234	
Others	(1,367)	153	1,921	(2,287)	
Less: Changes in WC	(719)	117	1,501	(1,039)	
Operating cash flow	1,830	2,523	2,331	1,363	
Less: Capex	(1,259)	(1,321)	(1,005)	(1,204)	
<b>Free Cash Flow</b>	<b>571</b>	<b>1,202</b>	<b>1,326</b>	<b>159</b>	

Cash flow metrics				
Year to March	FY19	FY20	FY21E	FY22E
Operating cash flow	1,830	2,523	2,331	1,363
Financing cash flow	(241)	(1,044)	(386)	(482)
Investing cash flow	(1,576)	(1,448)	(763)	(1,100)
Net cash Flow	13	31	1,182	(218)
Capex	(1,259)	(1,321)	(1,005)	(1,204)
Dividend paid	(182)	(201)	(89)	(182)

Profitability and efficiency ratios				
Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	17.6	14.9	7.8	13.2
ROACE (%)	15.5	13.1	7.7	12.9
ROA	11.3	10.3	5.6	9.5
Debtors Days	74	65	56	71
Payable Days	10	9	7	9
Cash Conversion Cycle	64	56	49	62
Current Ratio	2.6	2.8	3.7	3.9
Debt/EBITDA (x)	1.7	1.5	2.3	1.5
Adjusted Debt/Equity	0.5	0.4	0.4	0.3
Net Debt/Equity	0.4	0.3	0.2	0.2
Interest Coverage Ratio	4.6	4.6	2.5	5.4
LT debt /Cap empl. (%)	13.8	10.5	9.6	8.9
Debt / Cap employed (%)	30.6	25.9	26.3	24.8

Operating ratios				
Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	2.2	2.0	1.5	1.8
Fixed Asset Turnover	4.1	3.6	2.8	3.7
Equity Turnover	3.3	2.8	2.1	2.5

Valuation parameters				
Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	18.8	18.5	10.7	19.4
Y-o-Y growth (%)	16.4	(1.4)	(42.4)	81.8
Adjusted Cash EPS (INR)	28.8	28.0	21.7	30.8
Diluted P/E (x)	8.5	8.7	15.0	8.3
P/B (x)	1.4	1.2	1.1	1.0
EV / Sales (x)	0.6	0.6	0.7	0.5
EV / EBITDA (x)	6.6	6.6	8.7	5.5
Dividend Yield (%)	1.2	1.2	0.6	1.2

## Additional Data

### Directors Data

Dharpal Agarwal	Managing Director	Vineet Agarwal	Managing Director
Jasjit Sethi	CEO	Ishwar Sigar	CEO
Swaminatha Reddy Onteddu	Director	Vijay Sankar	Director
Susim Datta	Director	Satyanarayan Agarwal	Director
Karna Mehta	Director	Mahabir Sarawagi	Director
Ashish Bharat Ram	Director	Chander Agarwal	Director
Urmila Agarwal	Director		

Auditors - Brahmayya & Co.

*\*as per last available data*

### Holding Top -10

	Perc. Holding		Perc. Holding
IDFC Mutual Fund	3.7	Canara Robeco AMC	3.2
Canara Robeco Mutual Fund	3.1	Dimensional Fund Advisors LP	1.1
Sundaram Asset Management Co Ltd	1.0	Tata Asset Management Ltd	0.7
GIC Asset Management Co Ltd	0.6	JPMorgan Chase & Co	0.5
LIC Nomura Mutual Fund	0.4	Prinicpal Financial Group	0.2

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*as per last available data*

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## Coverage group(s) of stocks by primary analyst(s): Logistics

Blue Dart Express Ltd, Container Corporation of India Ltd, Future Supply Chain, Mahindra Logistics Ltd, TCI Express Ltd, Transport Corporation of India, VRL Logistics Ltd

### Recent Research

Date	Company	Title	Price (INR)	Recos
27-May-20	<b>Blue Dart Express</b>	Back on the long and winding road; <i>Result Update</i>	2,010	Reduce
21-May-20	<b>Mahindra Logistics</b>	A painful year beckons, but play the capability scale up; <i>Result Update</i>	259	Buy
20-May-20	<b>Logistics</b>	Trains & Trucks – A zero sum game; <i>Sector Update</i>		

### Distribution of Ratings / Market Cap

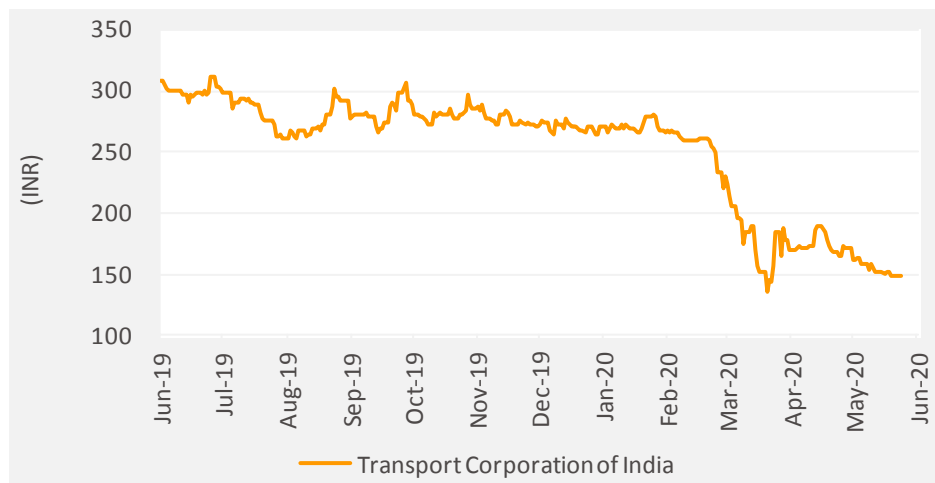
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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