

Transport Corporation of India

Rating: ◀▶ | Target price: ▲ | EPS: ▲

CMP
Rs. 367

Target Price
Rs. 420

Rating
BUY



ONE YEAR OUTLOOK

Business & Earnings ▲

- Maintain our positive stance on TRPC as it is expected to benefit from 1) recovery in automotive demand and scale up of new contracts (especially ecommerce) driving 3PL growth (TCI Supply Chain (SCS)), 2) thrust in demand for coastal shipping, 3) shift in focus towards multimodal transportation for cost-efficient logistics and 4) increasing contribution of less than truckload (LTL) to freight operations driving margins.
- In 4Q, SCS revenue grew 5% 2Y CAGR driven by healthy demand from automotive sectors. Furthermore, commissioning of two rakes to provide multimodal transportation for automotive finished vehicles aided growth. Expect 1) strong automotive demand (~80% of SCS revenues in FY21), 2) addition of new clientele and 3) cold chain opportunities, to drive revenue/EBITDA CAGR of 20% each (FY21-23E).
- Seaways segment reported a revenue growth of 9% 2Y CAGR in 4Q aided by healthy demand for coastal cargo movement. The growth was despite sale of a smaller capacity ship in 3Q. We expect addition of new ship (higher capacity and better operating efficiencies) towards end of FY22E coupled with sustained demand and pricing in coastal shipping to drive revenue/EBITDA CAGR of 25%/27% (F21-23E).
- Expect freight division to benefit from 1) higher LTL contribution (40% by FY25 from 33% in FY21), 2) shift from unorganised sector, and 3) growth in multimodal logistics (71% revenue growth by TCI-Concor for FY21). Expect revenue and EBITDA CAGR (FY21-23E) of 11%/18% respectively.

Valuation Multiples ▲

- Valuing based on SOTP (page 2) to arrive at TP of Rs.420 (FY23). Revising multiple upward in SCS (10x to 12x EV/EBITDA) driven by strong automotive recovery, Seaways (5x to 6x) led by sustained growth opportunities, and freight (4x to 5x) due to higher LTL proportion. Despite capex (~Rs. 4bn through FY22-23) towards addition of ship, infrastructure and technology, RoCEs likely to improve from 12% to 15% in FY23.

FINANCIAL SUMMARY

	NET SALES (Rs. mn)	EBITDA %	PAT	EPS	P/E	EV/ EBITDA	ROE (%)
FY20	25,134	9.3%	1,257	16.4	22.4	13.6	14%
FY21	24,520	10.1%	1,452	19.0	19.4	12.3	14%
FY22E	29,521	10.4%	1,794	23.4	15.7	10.1	15%
FY23E	33,684	11.2%	2,348	30.7	12.0	7.9	17%

THREE YEAR OUTLOOK

Business & Earnings ▲

- Expect TRPC to benefit from 1) shift in volumes from unorganised sector to organised, and 2) traction in multimodal logistics (TRPC is one of the few players with presence across value chain), which would drive revenue and EBITDA CAGR of 13%/19% respectively through FY20-24E.
- TRPC's established infrastructure, long-standing customer relationships and experienced management team (vintage of ~six decades) are expected to aid its position as a preferred 3PL partner. Furthermore, presence across multimodal logistics value chain (JV with Concor for rail transportation and fleet of ships for waterway transportation) allows TRPC to provide efficient end-to-end logistics solutions. Robust demand for multimodal logistics is expected to drive coastal shipping volume growth benefiting Seaways division. Expect addition of new ship every 12-15 months to cater to incremental demand. However, increasing competition may dilute realization and profitability (CONCOR expected to restart coastal shipping operations towards end of FY22E and other logistics service providers evaluate opportunities).
- Expect freight segment to benefit from higher contribution from LTL services. Freight segment's share of overall revenues to reduce from 47% in FY20 to ~39% by FY25E.

Valuation Multiples ▲

- Improving operating cashflows, combined with reducing debt, are expected to drive RoCE (12% in FY21 to ~16% in FY25E). Based on FY25E estimates, we see a potential upside of 53% (incl. dividends).

KEY ESTIMATES REVISION

	FY22E			FY23E		
	Old	New	Change	Old	New	Change
Sales	28,469	29,521	4%	30,937	33,684	9%
EBITDA %	10.4%	10.4%	-5 bps	10.7%	11.2%	47 bps
PAT	1,794	1,794	0%	2,068	2,348	14%
EPS	23.4	23.4	0%	27.0	30.7	14%
Implied Target P/E	Before Results:		12x	After Results:		14x

All figures in Rs.Mn

OUTLOOK REVIEW 4QFY21 27 May 2021

Industry	LOGISTICS
Key Stock Data	
Bloomberg	TRPC IN
Shares o/s	77mn
Market Cap	Rs. 28bn (\$0.4bn)
52-wk High-Low	Rs. 367-146
3m ADV	Rs. 49mn (\$0.7mn)
Index	BSE SMALLCAP
F&O	No

Latest Shareholding (%)

	Sep 20	Dec 20	Mar 21
Promoters	66.8	66.8	66.7
Institutions	13.8	14.0	13.9
Public	19.4	19.2	19.4
Pledge			

Stock Performance (%)

	1m	3m	12m
TCIEXP	37.4	50.9	146.7
Sensex	4.2	3.9	61.4

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Quarterly Financial Statement

- Supply Chain segment reported revenues at Rs. 2.92bn, was up 5% 2Y CAGR and flat QoQ. EBIT margins at 6.9%, was up 10bps sequentially
- Seaways segment revenues at Rs. 1.3bn, was up 9% 2Y CAGR and 25% QoQ. EBIT margins at 23.5% expanded 80bps YoY.
- Freight segment reported revenues of Rs. 3.87bn, up 9% 2Y CAGR and 18% QoQ. The segment's EBIT margins at 4.1%, was down 10bps sequentially
- The company reported exceptional loss of Rs. 35mn in 4QFY21 which includes impairment of wind power plant and impairment of investment in subsidiary to tune of Rs. 9mn
- Operating cash flow came in at Rs. 3.04bn for FY21. The company incurred capex of Rs. 1.4bn during the year

Consolidated Financial Results

Rs. mn\Period	4QFY21	4QFY20	yoy Growth	3QFY21	qoq Growth	FY20	FY21	Yoy Growth
Revenue	7,966	6,257	27.3%	7,152	11.4%	25,134	24,520	-2.4%
Operating expense	6,416	5,025	27.7%	5,760	11.4%	20,270	19,738	-2.6%
Emp. cost	425	408	4.2%	359	18.2%	1,524	1,402	-8.0%
Other expenses	271	245	10.5%	278	-2.8%	1,005	902	-10.3%
Total Expenditure	7,111	5,677	25.3%	6,398	11.1%	22,799	22,042	-3.3%
EBITDA	856	580	47.6%	754	13.4%	2,335	2,479	6.2%
Margin %	10.7%	9.3%	147 bps	10.5%	19 bps	9.3%	10.1%	82 bps
D&A	268	197	36.2%	220	21.6%	777	881	13.5%
EBIT	588	383	53.4%	534	10.1%	1,558	1,598	2.5%
Other income	105	67	58.3%	86	22.0%	283	352	24.3%
Net Interest exp (inc)	56	80	-29.8%	58	-3.8%	324	248	-23.5%
PBT	602	370	62.7%	562	7.1%	1,419	1,562	10.1%
Tax provision	73	57	28.3%	58	27.7%	155	214	38.7%
Tax rate %	12.2%	15.5%		10.2%		10.2%	12.6%	
PAT (Reported)	529	313	69.0%	401	32.0%	1,264	1,348	6.6%
PAT (Adjusted)	555	313	77.4%	479	16.0%	1,257	1,452	15.6%
Adjusted PAT Margin %	7.0%	5.0%	197 bps	6.7%	28 bps	5.0%	5.9%	92 bps
Shares Outstanding	77	77		77		77	77	
EPS (Reported)	6.9	4.1	69.0%	5.2	32.0%	17.8	17.6	-1.1%
EPS (Adjusted)	7.2	4.1	77.4%	6.2	16.0%	16.4	19.0	15.6%

*Adjusted for exceptional loss of Rs. 35mn in 4QFY21, Rs. 104mn in 3QFY21, Rs. 140mn in FY21 and Rs. 99mn in FY20

SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		3,283	5x Sept-22e EV/EBITDA
TCI SCS		17,323	12x Sept-22e EV/EBITDA
TCI Seaways		11,114	6x Sept-22e EV/EBITDA
Others		45	2x Sept-22e EV/EBITDA
Net Cash(Net Debt)		-1,776	
Value from TCI	392	29,989	93% of Total
Value from JV	29	2,258	7% of Total; Adjusted for hold co discount
No. Of Shares O/s (mn)		77	
Target Price	420	32,248	

Earnings Call Notes

▪ Revenue and margin drivers:

- SCS revenue growth of 40% YoY and 5% 2Y CAGR in 4Q was driven by automotive demand recovery. Automotive constitutes ~80% including all personal mobility (2W and PV), Tractors and Commercial Vehicles. FMCG ,E-commerce and chemical sectors forms predominant portion of remaining. The company aims to add new rakes for automotive finished goods transportation and aims to increase its services for cold chain. The focus will remain on providing Integrated Logistics & Supply Chain Solutions
- Freight division reported 20% YoY growth aided by MSME sector. The contribution of LTL to overall freight revenues was at 33% in FY21 and the company aims to increase to 40% by FY25 driving overall margins.
- Seaways division grew 24% YoY and 9% 2Y CAGR in 4Q. The revenue weakness in FY21 (7% YoY growth) was primarily due to three ships under drydock for over 3 months and one ship sold during Mid-February. East and West Coast accounted for 42% and 58% of revenues, respectively. The company owns 6 domestic coastal ships with a total capacity of 77,957 DWT and aims to add one more to its fold by end of FY22.
- TCI Concor JV grew 71% YoY to Rs. 3.24bn in FY21 with PAT quadrupling to Rs. 33mn. The company is building upon its capabilities of integrated multimodal logistics solutions for Chemical, food grain, metals sectors
- TCI Cold Chain revenues grew 41% YoY to Rs. 363mn in FY21. The company inducted Mitsui as a new JV partner in Q4. Mitsui will take 20% stake in the subsidiary based on Rs. 0.64bn valuation of company. The subsidiary will provide Cold chain services to cater to temperature control Warehousing, Primary & secondary distribution requirements
- Transystem (TCI-Mitsui JV) catering predominantly to Toyota reported Rs. 3.6bn revenues in FY21, 19% YoY decline. The management expects automotive demand revival to aid growth in the JV.

▪ Capex: Total spend of Rs. 1.1bn in FY21. The company intends to spend aggressively to capture next cycle of growth. Estimated spend of Rs. 2.25bn in FY22 towards

- Hub center and small warehouses – Rs. 640mn
- Ship – Rs. 800mn
- Containers – Rs. 400mn
- Trucks and rakes – Rs. 340mn
- Others (W/H Equip, Wind Energy, IT) – Rs. 70mn

Financial Summary

Abridged Financial Statements

Rs. mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Profit & Loss										
Revenue	22,578	18,042	21,778	25,583	25,134	24,520	29,521	33,684	36,364	40,635
Gross profit	4,742	3,502	4,288	4,888	4,864	4,782	5,753	6,737	7,346	8,290
EBITDA	1,823	1,575	2,083	2,442	2,335	2,479	3,067	3,773	4,119	4,898
Depreciation	539	578	673	752	777	881	1,065	1,127	1,239	1,351
EBIT	1,284	996	1,410	1,690	1,558	1,598	2,002	2,646	2,880	3,547
Other Income	122	177	245	269	283	352	360	377	425	502
Interest expense	282	286	299	356	324	248	202	194	156	119
Exceptional items	0	0	40	0	99	140	0	0	0	0
PBT	1,124	888	1,316	1,603	1,419	1,562	2,161	2,829	3,149	3,931
Reported PAT (after minority interest)	851	703	1,037	1,276	1,264	1,348	1,794	2,348	2,614	3,263
Adj PAT	850	703	1,037	1,276	1,257	1,452	1,794	2,348	2,614	3,263
EPS (Rs.)	11.2	9.2	13.5	16.7	16.4	19.0	23.4	30.7	34.1	42.6
Balance Sheet										
Net Worth	4,917	5,809	6,769	8,370	9,500	10,804	12,444	14,639	17,100	20,209
Deferred Tax	320	392	443	390	263	263	263	263	263	263
Total debt	3,394	4,066	4,238	4,496	4,083	2,735	3,035	2,535	2,035	1,535
Other liabilities and provisions	819	318	535	1,290	1,263	1,375	1,460	1,654	1,779	1,978
Total Networth and liabilities	9,449	10,584	11,985	14,546	15,109	15,177	17,203	19,091	21,177	23,985
Gross Fixed assets	8,021	8,761	10,345	11,917	13,159	14,305	16,555	18,125	19,995	21,565
Net fixed assets	5,169	5,325	6,236	7,055	7,521	7,786	8,971	9,414	10,045	10,264
Capital work-in-progress	123	568	563	40	216	52	52	52	52	52
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	231	298	313	938	888	858	858	858	858	858
Cash and bank balances	124	184	130	122	178	308	303	759	1,577	3,150
Loans & advances and other assets	1,192	1,601	1,604	2,221	2,324	2,223	2,426	2,769	2,989	3,340
Net working capital	2,609	2,608	3,139	4,170	3,982	3,951	4,592	5,239	5,656	6,321
Total assets	9,449	10,584	11,985	14,546	15,109	15,177	17,203	19,091	21,177	23,985
Capital Employed	8,630	10,266	11,450	13,256	13,846	13,802	15,742	17,437	19,398	22,007
Invested Capital (CE - cash - CWIP)	8,383	9,514	10,757	13,094	13,452	13,442	15,387	16,626	17,769	18,805
Net debt	3,270	3,882	4,109	4,375	3,905	2,427	2,732	1,776	458	-1,615
Cash Flows										
Cash flows from Operations (Pre-tax)	2,567	1,115	2,119	2,060	2,748	2,976	2,466	3,160	3,876	4,465
Cash flows from Operations (post-tax)	2,330	883	1,768	1,729	2,353	3,043	2,099	2,679	3,340	3,797
Capex	1,750	1,156	1,590	1,078	1,304	1,442	2,250	1,570	1,870	1,570
Free cashflows	580	-273	177	651	1,049	1,602	-151	1,109	1,470	2,227
Free cashflows (post interest costs)	298	-560	-122	295	726	1,354	-353	915	1,314	2,108
Cash flows from Investing	-988	-1,174	-1,538	-1,481	-1,346	-959	-2,250	-1,570	-1,870	-1,570
Cash flows from Financing	-1,383	370	316	-255	-964	-1,941	147	-653	-653	-653
Total cash & liquid investments	124	184	130	122	178	308	303	759	1,577	3,150

Financial Summary

	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Key variables (sector-specific)										
Freight Revenues (Rs. Mn)	8,400	9,223	10,311	12,096	12,478	11,508	13,594	14,274	14,988	15,737
Supply Chain Revenues (Rs. Mn)	6,249	7,374	9,126	10,189	9,250	9,376	11,434	13,492	14,841	16,325
Seaways Revenues (Rs. Mn)	1,407	1,639	2,564	3,593	3,677	3,953	4,749	6,174	6,792	8,829
Growth ratios										
Revenue	2.8%	12.9%	20.7%	17.5%	-1.8%	-2.4%	20.4%	14.1%	8.0%	11.7%
EBITDA	7.0%	17.7%	32.3%	17.2%	-4.4%	6.2%	23.7%	23.0%	9.2%	18.9%
Adj PAT	12.0%	18.0%	47.6%	23.0%	-1.0%	6.6%	33.1%	30.9%	11.3%	24.8%
Margin ratios										
Gross	21.0%	19.4%	19.7%	19.1%	19.4%	19.5%	19.5%	20.0%	20.2%	20.4%
EBITDA	8.1%	8.7%	9.6%	9.5%	9.3%	10.1%	10.4%	11.2%	11.3%	12.1%
Adj PAT	3.8%	3.9%	4.8%	5.0%	5.0%	5.9%	6.1%	7.0%	7.2%	8.0%
Performance ratios										
Pre-tax OCF/EBITDA	140.8%	70.8%	101.7%	84.3%	117.7%	120.1%	80.4%	83.8%	94.1%	91.2%
OCF/IC (%)	27.8%	9.3%	16.4%	13.2%	17.5%	22.6%	13.6%	16.1%	18.8%	20.2%
RoE (%)	16.2%	13.1%	16.5%	16.9%	14.1%	14.3%	15.4%	17.3%	16.5%	17.5%
RoCE (%)	12.1%	9.8%	12.0%	12.6%	12.1%	12.2%	13.3%	15.1%	14.9%	16.2%
RoCE (Pre-tax)	16.0%	12.4%	15.2%	15.9%	13.6%	14.1%	16.0%	18.2%	17.9%	19.6%
RoIC (Pre-tax)	15.0%	11.1%	13.9%	14.2%	11.7%	11.9%	13.9%	16.5%	16.7%	19.4%
Fixed asset turnover (x)	2.9	2.2	2.3	2.3	2.0	1.8	1.9	1.9	1.9	2.0
Total asset turnover (x)	2.3	1.8	1.9	1.9	1.7	1.6	1.8	1.9	1.8	1.8
Financial stability ratios										
Net Debt to Equity (x)	0.7	0.7	0.6	0.5	0.4	0.2	0.2	0.1	0.0	(0.1)
Net Debt to EBITDA (x)	1.8	2.5	2.0	1.8	1.7	1.0	0.9	0.5	0.1	(0.3)
Interest cover (x)	8.3	3.1	5.9	4.9	7.3	12.3	10.4	13.8	21.4	32.0
Cash conversion days	42	53	53	59	58	59	57	57	57	57
Working capital days	48	79	71	73	73	71	69	69	69	69
Valuation metrics										
Fully Diluted Shares (mn)	76.1	76.1	76.6	76.6	76.6	76.6	76.6	76.6	76.6	76.6
Market cap (Rs.mn)			28,104							
P/E (x)	32.8	39.7	27.1	22.0	22.4	19.4	15.7	12.0	10.8	8.6
P/OCF(x)	12.1	31.8	15.9	16.3	11.9	9.2	13.4	10.5	8.4	7.4
EV (Rs.mn) (ex-CWIP)	31,250	31,418	31,649	32,439	31,793	30,531	30,836	29,880	28,562	26,489
EV/ EBITDA (x)	17.1	20.0	15.2	13.3	13.6	12.3	10.1	7.9	6.9	5.4
EV/ OCF(x)	13.4	35.6	17.9	18.8	13.5	10.0	14.7	11.2	8.6	7.0
FCF Yield			0.6%	2.3%	3.7%	5.7%	-0.5%	3.9%	5.2%	7.9%
Price to BV (x)	5.7	4.8	4.2	3.4	3.0	2.6	2.3	1.9	1.6	1.4
Dividend pay-out (%)	13.4%	12.0%	11.8%	10.8%	12.2%	6.4%	8.5%	6.5%	5.9%	4.7%
Dividend yield (%)			0.4%	0.5%	0.5%	0.3%	0.5%	0.5%	0.5%	0.5%

Source: Company data, Spark Capital Research

Crystal Ball Gazing

Over FY21-25E, Revenue growth is likely to be driven by 1) shift from unorganised sector to organised, 2) logistics supply chain outsourcing to 3PL players, and 3) traction in multimodal logistics. EBITDA growth is expected to be driven by higher contribution from supply chain services(3PL) and increase in movement of freight by multimodal logistics.



Healthy Revenue and EBITDA growth

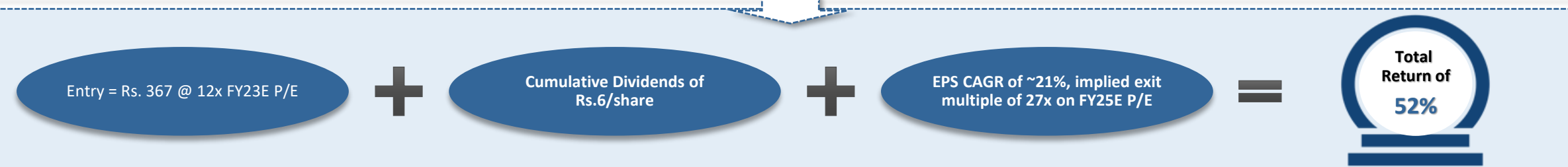
	FY11-FY14	FY14-FY19	FY20-FY25E
Revenues CAGR	5%	12%	10%
Gross Margin	19%	20%	20%
EBITDA CAGR	3%	19%	16%
EBITDA margin	7.6%	8.7%	10.7%
EPS CAGR	6%	27%	21%
Total Asset Turnover (x)	2.5	2.1	1.8
Total WC days	56	66	70
Pre-tax OCF/EBITDA (%)	87%	100%	98%
Post Tax OCF as a % of IC	15%	16%	18%
Debt/EBITDA	2.1	2.5	0.6

Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY19	FY20-FY25E
RoE (%)	15.2%	15.5%	15.8%
RoCE (%)	10.9%	11.6%	14.0%
RoIC (%)	15.6%	13.9%	15.0%
Average 1 yr fwd			
PE (x)	4.3	12.8	
EV/EBITDA (x)	4.4	9.1	
Peak 1 yr fwd			
PE (x)	6.8	19.2	
EV/EBITDA (x)	6.6	12.8	

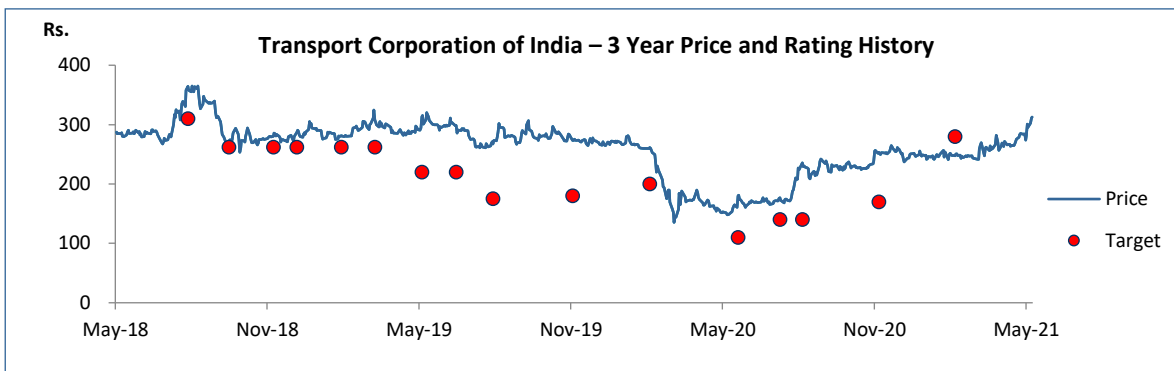
Healthy operating performance to sustain multiple

SOTP	FY25 EBITDA (Rs.mn)	EV/EBITDA (x)	EV (Rs.mn)
TCI Freight	724	5.0	3,620
TCI SCS	1,747	12.0	20,961
TCI Seaways	2,649	6.0	15,892
Others	22	2.0	45
Net Debt (Rs.mn)			458
Mkt Cap (Rs.mn)			40,060
Standalone TP			523
JV (Transystem)			34
Target Price			557



Source: Company data, Spark Capital Research

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
05-Feb-21	244	305	Buy
06-Nov-20	148	170	Buy
07-Aug-20	115	140	Buy
13-Jul-20	113	140	Buy
21-May-20	90	110	Buy
06-Feb-20	168	200	Buy
06-Nov-19	179	180	Add
02-Aug-19	154	175	Buy
21-Jun-19	277	220	Buy
13-May-19	190	220	Buy
15-Mar-19	223	262	Buy
06-Feb-19	202	262	Buy
12-Dec-18	233	262	Buy
14-Nov-18	222	262	Buy
24-Sep-18	223	262	Buy

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Details of Financial Interest of covering analyst/ and his relatives	No
Investment banking relationship with the company covered	No
Any other material conflict of interest at the time of publishing the research report by Spark and its associates	No
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