TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	367
12 month price target (INR)	450
Market cap (INR bn/USD bn)	28/0.4
Free float/Foreign ownership (%)	33.3/1.6

What's Changed

Target Price	↑
Rating/Risk Rating	–

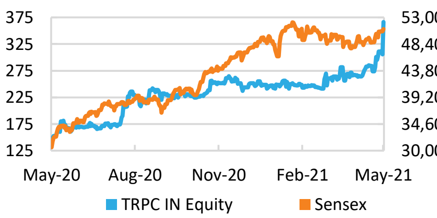
QUICK TAKE

	Above	In line	Below
Profit	•		
Margins	•		
Revenue Growth	•		
Overall	•		

FINANCIALS (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	27,178	28,024	32,158	36,844
EBITDA	2,405	2,612	3,143	3,841
Adjusted profit	1,531	1,586	1,994	2,494
Diluted EPS (INR)	19.8	20.1	25.3	31.6
EPS growth (%)	5.4	1.5	25.7	25.1
RoAE (%)	14.9	13.7	16.2	18.0
P/E (x)	18.5	18.2	14.5	11.6
EV/EBITDA (x)	13.2	11.6	10.0	7.9
Dividend yield (%)	0.5	0.6	0.7	0.9

PRICE PERFORMANCE



Explore:

Financial model

Podcast

Corporate access

Video

Munching miles

Transport Corporation of India (TCI) outran our estimates turning in record-high revenue (up 27% YoY), margin improvement across segments and an earnings uptick of 79% YoY. Management continues to be upbeat on demand and guided for a 15%/20% YoY increase in FY22 revenue/PAT, though Q1 operations would be impacted by covid.

We are bullish on TCI; its improving business mix should lift margins and returns profile over the next three–four years, which can drive a re-rating. Moreover the stock, trading at 14x PE, provides valuation comfort. Factoring in the strong Q4FY21 and better demand outlook, we are raising FY22/23E EPS by 3/11%. Retain 'BUY' with a revised TP of INR450 (up from INR342), implying 17x one-year forward PE.

Strong performance continues

TCI outclassed our Q4FY21 estimates turning in record-high revenue (up 27% YoY/11% QoQ) and a 79% YoY uptick in PAT. EBITDA margin expanded across the board and came in at 10.7% (up 140bps YoY). The freight division's revenue jumped 20% YoY while its margin came in at 4.5% (4.2% in Q4FY20). Supply chain revenue, although flat QoQ, jumped 40% YoY off a low base. And given this segment's high dependence on the auto sector (~80%), it would be heavily impacted again by lockdowns in Q1FY22. The Seaways division's Q4FY21 revenue increased 23% YoY with margin expanding 450bps YoY.

Business mix change to drive re-rating

Our investment rationale for TCI is premised 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. The supply chain division operates in the fast-growing 3PL category, which is expected to log a CAGR of 15%-plus over the next five–seven years. TCI also plans to add capacity in Seaways (in Q4FY22), which should aid margin improvement and RoCE. Overall, TCI's focus on establishing multi-modal capabilities would show up in its growth over the next four–five years.

Outlook and valuation: Retain 'BUY'

Factoring in a strong Q4FY21 performance and better demand outlook, we are revising up FY22/23E EPS by 3/11%. Retain **'BUY/SN'** with a revised SoTP-based TP of INR450 (up from INR342), implying a one-year forward PE of 17x. The stock is trading at 14x one-year forward PE provides ample margin of safety.

Financials

Year to March	Q4FY21	Q4FY20	% Change	Q3FY21	% Change
Net Revenue	7,966	6,257	27.3	7,152	11.4
EBITDA	856	580	47.6	754	13.4
Adjusted Profit	560	313	79.2	482	16.1
Diluted EPS (INR)	7.3	4.1	79.2	6.3	16.1

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Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	27,178	28,024	32,158	36,844
Cost of Goods Sold	22,143	22,972	26,231	29,840
Employee costs	1,572	1,455	1,620	1,840
Other expenses	1,058	984	1,163	1,322
EBITDA	2,405	2,612	3,143	3,841
Depreciation	825	928	1,108	1,185
Less: Interest expense	343	267	281	297
Add: Other income	201	255	372	347
Profit before tax	1,438	1,672	2,126	2,707
Prov for tax	159	238	392	499
Less: Other adjustment	153	71	260	286
Reported profit	1,432	1,504	1,994	2,494
Less: Excp.item (net)	99	82	0	0
Adjusted profit	1,531	1,586	1,994	2,494
Diluted shares o/s	77	79	79	79
Adjusted diluted EPS	20	20	25	32
DPS (INR)	2.0	2.3	2.6	3.3
Tax rate (%)	11.1	14.3	18.4	18.4

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	154	154	154	154
Reserves	10,085	11,543	12,784	14,684
Shareholders funds	10,239	11,697	12,938	14,838
Minority interest	57	86	47	47
Borrowings	3,720	2,555	3,300	3,069
Trade payables	639	759	678	776
Other liab & prov	2,159	2,272	1,638	1,638
Total liabilities	16,833	17,388	18,620	20,387
Net block	7,713	8,015	8,955	8,976
Intangible assets	5	31	6	6
Capital WIP	216	52	52	52
Total fixed assets	7,933	8,099	9,014	9,034
Non current inv	1,354	1,500	1,589	1,589
Cash/cash equivalent	259	395	203	1,139
Sundry debtors	4,873	5,110	5,521	6,327
Loans & advances	225	124	226	226
Other assets	1,717	1,608	1,529	1,534
Total assets	16,833	17,388	18,620	20,387

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
EBITDA margin (%)	8.9	9.3	9.8	10.4
PBT growth (% YoY)	(6.7)	16.2	27.2	27.3
Net profit margin (%)	5.6	5.7	6.2	6.8
Revenue growth (% YoY)	(1.3)	3.1	14.8	14.6
EBITDA growth (% YoY)	(3.6)	8.6	20.3	22.2
Asset turnover (X)	2.0	1.9	2.1	2.1
Adj. profit growth (%)	5.4	3.6	25.7	25.1
EBIT margin (%)	5.8	6.0	6.3	7.2

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	1,432	1,504	1,994	2,494
Add: Depreciation	825	928	1,108	1,185
Interest (net of tax)	230	179	188	199
Others	(81)	255	(539)	(535)
Changes in WC	117	181	(828)	(712)
Operating cash flow	2,523	3,047	1,923	2,630
Less: Capex	(1,321)	(1,241)	(2,230)	(1,205)
Free cash flow	1,202	1,807	(306)	1,425

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(4.0)	7.0	7.0
Repo rate (%)	4.4	3.0	4.0	4.0
USD/INR (average)	70.7	75.0	73.0	73.0
Freight margin (%)	3.9	4.1	4.0	4.0
SCM margin (%)	9.8	10.7	10.5	11.0
Real. per DWT (INR)	85,000	85,000	90,000	90,000
Freight div. (% YoY)	3.3	(7.8)	12.0	13.2
SCM growth(% YoY)	(8.9)	1.1	16.0	13.0
Seaways (% YoY)	3.5	7.2	16.6	22.3

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	14.9	13.7	16.2	18.0
RoCE (%)	13.1	13.7	15.7	17.5
Receivable days	67	65	60	59
Payable days	9	9	8	7
cash conversion cycle	59	57	53	52
Working cap (% sales)	15.9	14.6	16.2	16.1
Gross debt/equity (x)	0.4	0.2	0.3	0.2
Net debt/equity (x)	0.3	0.2	0.2	0.1
Interest coverage (x)	4.6	6.3	7.2	9.0

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	18.5	18.2	14.5	11.6
Price/BV (x)	2.8	2.5	2.2	1.9
EV/EBITDA (x)	13.2	11.6	10.0	7.9
Dividend yield (%)	0.5	0.6	0.7	0.9

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	5.4	1.5	25.7	25.1
RoE (%)	14.9	13.7	16.2	18.0
EBITDA growth (%)	(3.6)	8.6	20.3	22.2
Payout ratio (%)	10.6	11.9	10.1	10.3

Source: Company and Edelweiss estimates

Exhibit 1: Quarterly financial snapshot

INR mn	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY22E	FY23E
Revenue	**7,966**	**6,257**	**27.3**	**7,152**	**11.4**	**24,520**	**28,129**	**32,210**
Operating expenses	6,416	5,025	27.7	5,760	11.4	19,738	22,512	25,563
Employee Benefit Expenses	425	408	4.2	359	18.2	1,402	1,559	1,770
Others	271	245	10.5	278	(2.8)	902	1,068	1,213
Total expenditure	7,111	5,677	25.3	6,398	11.1	22,042	25,139	28,546
EBITDA	**856**	**580**	**47.6**	**754**	**13.4**	**2,479**	**2,990**	**3,664**
Depreciation	268	197	36.2	220	21.6	881	1,061	1,137
EBIT	**588**	**383**	**53.5**	**534**	**10.1**	**1,598**	**1,928**	**2,527**
Interest	56	80	(29.8)	58	(3.8)	248	252	265
Other income	105	67	58.3	86	22.0	352	372	347
Add: Exceptional items	35	0	N/A	104	(66.2)	140	0	0
Profit Before Tax	**602**	**370**	**62.7**	**458**	**31.4**	**1,562**	**2,048**	**2,609**
Less: Provision for Tax	73	57	28.3	58	27.7	214	369	470
Reported Profit	**529**	**313**	**69.0**	**401**	**32.0**	**1,348**	**1,680**	**2,139**
Adjusted Profit	**560**	**313**	**79.2**	**482**	**16.1**	**1,487**	**1,680**	**2,139**
Adjusted Diluted EPS	7.3	4.1	79.2	6.3	16.1	19.4	21.9	27.9
P/E (x)							12.1	9.7
As % of net revenues								
Operating expenses	80.5	80.3		80.5		80.5	80.0	79.4
Staff expenses	5.3	6.5		5.0		5.7	5.5	5.5
Other expenses	3.4	3.9		3.9		3.7	3.8	3.8
EBITDA	10.7	9.3		10.5		10.1	10.6	11.4
Net profit	7.0	5.0		6.7		6.1	6.0	6.6

Source: Company, Edelweiss Research

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 12 million 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% 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.

Any downfall in trucking freight rates, particularly due to aggressive pricing by PE backed transporters can impact the profitability of TCI adversely.

Additional Data

Management

CEO	Vineet Agarwal (MD)
CFO	Ashish Tiwari
COO	
Other	
Auditor	Brahmayya & Co.

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	7.54	LIC AMC	0.85
HDFC Trustee	7.36	Tata AMC	0.83
Sundaram AMC	1.04	GIC AMC	0.60
IDFC AMC	0.95	JP Morgan	0.51
Dimensional Fd.	0.90	Principal Group	0.34

Latest public data

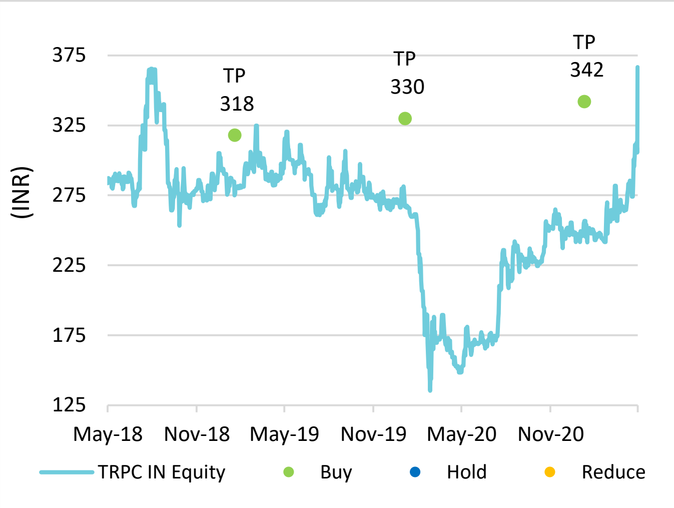
Recent Company Research

Date	Title	Price	Reco
08-Feb-21	Business mix change to drive rerating; *Company Update*	245	Buy
05-Feb-21	Geared up; *Result Update*	257	Buy
04-Nov-20	Going strong; *Result Update*	226	Buy

Recent Sector Research

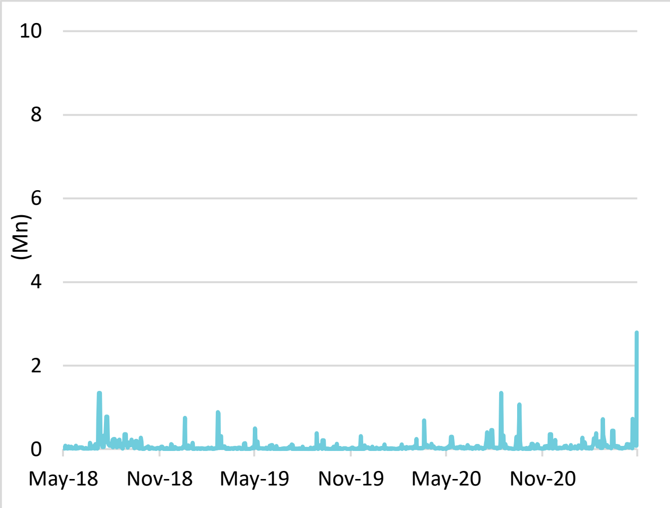
Date	Name of Co./Sector	Title
24-May-21	Container Corporation	Stalemate ends; re-rating on the cards; *Result Update*
19-May-21	TCI Express	Performance in fast lane; record margin; *Result Update*
05-May-21	Blue Dart Express	The juggernaut rolls on; *Result Update*

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	169	57	17	244
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	204	46	3	253

**1 stocks under review*

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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