Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Transport Corporation of India Ltd

Seaways remains torchbearer; other segments to revert to growth

Logistics	Sharekhan code: TCI
Reco/View: Buy ↔	CMP: Rs. 747
	Price Target: Rs. 890 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 5,775 cr
52-week high/low:	Rs. 858/388
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.6 cr

Shareholding (%)

Promoters	66.6
FII	2.7
DII	12.3
Others	18.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	9.2	23.4	6.8	69.8
Relative to Sensex	12.0	23.6	12.0	63.0

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on TCI Ltd with a revised price target of Rs. 890, led by upwardly revised valuation for its Seaways divison.
- TCI reported in-line performance for Q4FY2022 led by sustained momentum in Seaways in both revenues and OPMs. Net Cash surplus stand at Rs. 27 crore as against net debt of Rs. 237 crore a year ago.
- The management expects topline and bottomline growth of 10-15% for FY2023 considering flattish Seaways performance and expected rebound in growth in the freight and SCM divisions.
- Capex for ship acquisitions revised upwards and hopeful of finalising acquisition by Q4FY2023.

Transport Corporation of India (TCI) reported an in-line performance for Q4FY2022 despite the quarter being affected by covid and global supply chain disruptions. Consolidated revenues were up 0.6% y-o-y (up 7.2% q-o-q) to Rs. 898 crore led by sustained strong performance from the Seaways division (revenues up 28% y-o-y at Rs. 154 crore due to elevated freight rates) while freight segment (up 0.9% y-o-y due to high base last year) and the SCM division (down 12% y-o-y as supply chain challenges continued for auto sector) remain muted. Consolidated OPM at 13.3% (up 336 bps y-o-y) continued to be driven by seaways (OPM up over 1000 bps y-o-y at 46.4%) while margins in freight (4.6%) and SCM (11.4%) remained steady y-o-y. Strong operational performance led to a 35% y-o-y and 27% y-o-y rise in consolidated operating profit and net profit respectively. The management expects topline and bottomline for FY2023 to grow at 10-15% y-o-y considering flat performance by the seaways division from an exceptionally high level in FY2022 and a rebound in growth in freight and SCM. It increased its budget for ship acquisition and is hopeful of an acquisition by Q4FY2023 which would be keenly eyed.

Key positives

- Seaways reported 28% y-o-y revenue growth and 46.4% OPM for Q4FY2022.
- Cash surplus including current investments at Rs. 27 crore in FY2022 compared to net debt of Rs. 237 crore in FY2021.

Key negatives

- SCM business continue to be affected by chip shortages in auto leading to 12% y-o-y decline in net revenues.
- High ship prices continue to delay purchase of ship.

Management Commentary

- During FY2023, the freight and SCM business is expected to grow its topline and bottomline by 10-15% y-o-y and 15%+y-o-y respectively.
- Cold chain revenues are expected to double over the next three years.
- It would incur Rs. 300 crore capex in FY2023 of which shipping would be Rs. 130 crores (one ship addition plus container additions), truck replacement, truck additions (for SCM business) and addition of 1-2 rakes.

Revision in estimates – We have fine tuned our estimates for FY2023-FY2024 factoring lower Seaways revenues and gradual contraction in Seaways OPM than earlier expected.

Our Call

Valuation – Retain Buy with a revised price target of Rs. 890: TCI's multi-modal capabilities is expected to benefit it from the logistics sector's growth tailwinds led by GST, government thrust on schemes such as Atmanirbhar Bharat, PLI-led manufacturing push, and global supply chain re-alignments. The seaways division is expected to sustain strong performance led by increased freight rates and normalization of OPM expected to be at a slower pace than earlier envisaged. The addition of one more ship would be keenly awaited and provide further fillip to its seaways division. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP based target of Rs. 890 factoring upwardly revised valuation for the seaways division.

Key Risks

A sustained weak macro-economic and auto industry environment can lead to a downward revision in net earnings.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	2,802.4	3,256.7	3,562.1	3,939.4
OPM (%)	9.3	12.6	12.3	11.8
Adjusted PAT	160.2	289.6	290.2	301.4
% YoY growth	5.2	80.8	0.2	3.9
Adjusted EPS (Rs.)	20.9	37.5	37.6	39.0
P/E (x)	35.8	19.9	19.9	19.1
P/B (x)	4.8	4.0	3.4	2.9
EV/EBITDA (x)	22.3	14.2	13.3	12.5
RoNW (%)	14.6	22.3	18.6	16.4
RoCE (%)	10.0	17.5	15.4	13.7

Source: Company; Sharekhan estimates

Seaways continue to report strong performance

Transport Corporation of India reported consolidated net revenues of Rs. 898 crore (up 0.6% y-o-y, up 7.2% q-o-q) which was in-line with our estimate. The revenues from freight was up 0.7% y-o-y (+11% q-o-q) at Rs. 480 crore, Supply chain management revenues were down 9.7% y-o-y (-1.5% q-o-q) at Rs. 275 crore and Seaways revenues were up 23.5% y-o-y (+8.6% q-o-q) at Rs. 161 crore. Consolidated OPM at 13.3% (+336bps y-o-y, +26bps q-o-q) was in-line with our estimate of 13.2%. Strong OPM expansion y-o-y led to consolidated profit growth of 34.6% y-o-y (up 9.3% q-o-q) at Rs. 119 crore, which was in-line with our estimate. Strong operational performance was partly offset by higher depreciation (up 32.5% y-o-y, up 45.5% q-o-q at Rs. 37 crore) leading to 27% y-o-y rise in consolidated net profit at Rs. 85 crore, which was marginally below our estimate.

Healthy FY2023 guidance with other segments reverting to growth

The management expects the topline and bottomline to grow at 10-15% y-o-y for FY2023 due to headwinds in the near term. The OPM is expected to remain at same level or come down a little led by expected lower Seaways OPM. During FY2023, the freight and SCM business is expected to grow its topline and bottomline by 10-15% y-o-y and 15%+y-o-y respectively. The Seaways is expected to see flattish revenue growth y-o-y with OPM expected to be flattish to bit lower y-o-y with freight rates expected to come down. Its cold chain revenues are expected to double over the next three years. It has increased its budget for buying ship from earlier Rs. 60-70 crores to Rs. 90-100 crores. It is hopeful of acquiring one ship by Q4FY2023 with payback period expected to remain at 6-8 years due to higher freight rates.

Key Conference Call takeaways -

- **Q4FY22 performance:** The company saw flat growth due to high base as Q4FY2021 saw strong pent-up demand led growth. The depreciation was higher on account of reassessment of ships value factoring reduction in useful life. It is not going to increase depreciation every year.
- **Guidance:** Topline and bottomline is expected to grow at 10-15% y-o-y for FY2023 due to headwinds in the near term. The OPM is expected to remain at same level or come down a little led by expected lower Seaways OPM.
- **Sector trends:** The industry has faced disruptions in global supply chain over last few months led by Russia-Ukraine war and covid led shutdown in China. The domestic customers are moving from Just in Time to Just in Case to better prepare for uncertainties in supply chains. Customers are outsourcing more of logistics services. Logistics sector is expected to benefit from government's infra push, multi-modal movement of goods, PLI led manufacturing and AtmaNirbhar Bharat. It is seeing good traction in renewable space.
- **TCI services:** It added one more train by March 2022 end. It is currently loading four trains a day. It owns 8000 containers in coastal services and plans to add some more. It is managing 55 yards mostly for auto. It is managing work on 60 terminals across India. Its cold chain and SAARC operations are doing well. In SAARC business, it is providing comprehensive services including direct deliveries to Bangladesh.
- **Capex:** It would incur Rs. 300 crore capex in FY2023 of which shipping would be Rs. 130 crores (one ship plus container additions), truck replacement, truck additions (for SCM business) and addition of 1-2 rakes.
- **Freight:** LTL segment picked up with its share now at 35% of freight revenues. The freight division's RoCE crossed 20%. It has acquired large contracts both on LTL and FTL. The segment is expected to grow its topline and bottomline by 10-15% y-o-y.
- **SCM:** It manages 55 yards mostly for auto through hub and spoke model. Mobility segment comprise 75-80%. It is doing work on EV space for both components and finished goods movement. It has storage capacity of 13 msf. It is hopeful of pent-up led demand growth driving topline and bottomline growth in excess of 15% y-o-y.
- **Seaways:** The company has been going to Myanmar frequently during last year which is expected to continue this year. It has three dry docks planned for FY2023 as was in FY2022. It has increased its budget for buying ship from earlier Rs. 60-70 crore to Rs. 90-100 crores. It is hopeful of acquiring one ship by Q4FY2023 with payback remaining at 6-8 years due to higher freight rates. The segment is expected to see flattish growth y-o-y with OPM expected to be flat to bit lower y-o-y with pricing expected to come down.

- **Concor JV:** The business declined 7% due to high base (it had 70% y-o-y growth in Q4FY2021). There has been some shift of volumes from rail to road.
- **Cold Chain:** The segment grew by 62% y-o-y though on small base. It is expected to double over next three years. The capital employed increased to Rs. 42 crore in FY2022 versus Rs. 38 crores in FY2021 while profitability increased substantially from Rs. 50 lakhs to Rs. 2.8 crores in FY2022 due to usage of combination of business model versus owning assets only.
- **Trans-shipment:** The segment saw 30% y-o-y growth.
- **Debt and cash:** It has Rs. 42 crore debt and cash balance of Rs. 60 crores translating to net cash surplus of Rs. 18 crore.

Results (Consolidated) | Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y %	Q3FY22	q-o-q %
Net sales	**897.7**	**892.7**	**0.6%**	**837.7**	**7.2%**
Other income	7.6	11.3	-32.7%	5.3	42.7%
Total income	905.3	904.0	0.1%	843.0	7.4%
Total expenses	778.4	804.1	-3.2%	728.5	6.9%
Operating profit	**119.3**	**88.6**	**34.6%**	**109.2**	**9.3%**
Depreciation	37.1	28.0	32.5%	25.5	45.5%
Interest	2.2	6.1	-63.2%	2.6	-13.5%
Exceptional items	0.0	-2.6		0.0	
Profit Before Tax	**87.5**	**63.2**	**38.6%**	**86.4**	**1.3%**
Taxes	10.9	8.1	34.4%	10.8	0.5%
PAT	76.7	55.1	39.2%	75.6	1.4%
Minority Interest/JV income	-8.7	-9.5	-8.3%	-6.3	37.7%
Adjusted PAT	**85.4**	**67.2**	**27.0%**	**81.9**	**4.2%**
EPS (Rs.)	11.0	8.7	27.0%	10.6	4.2%
Margins					
OPM (%)	13.3%	9.9%	336 bps	13.0%	26 bps
NPM (%)	9.5%	7.5%	198 bps	9.8%	-27 bps
Tax rate (%)	12.4%	12.8%	-38 bps	12.5%	-10 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth outlook led by changing consumer preferences & macro pick-up

The logistics industry had been one of the key sectors which showed strong revival post COVID-19 pandemic that affected the overall trade environment both domestically and globally. Domestic indicators like e-way bill generations, FASTag collections, Indian Rail volume, domestic ports volume and foreign trade are showing clear signs of revival. Further, an organised domestic logistics players have been able to improve their business led by user-industries' preference towards credible supply chain management in wake of impact of covid on supply chain operations. Further, the third-party logistics (3PL) industry has seen a faster improvement in operations led by segments like e-Commerce, pharma and FMCG. Hence, we upgrade our view on the logistics sector to Positive from Neutral.

■ Company outlook - Strong headroom for long-term growth

TCI has a strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics along with the supply chain business with over six decades of experience gives it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

■ Valuation - Retain Buy with a revised price target of Rs. 890

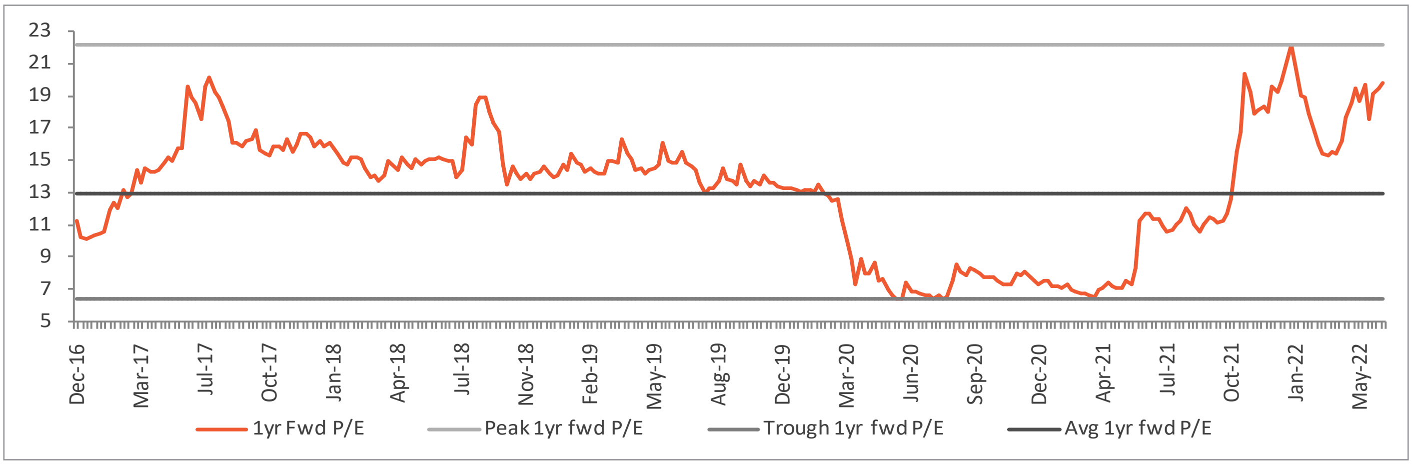
TCI's multi-modal capabilities is expected to benefit it from the logistics sector's growth tailwinds led by GST, government thrust on schemes such as Atmanirbhar Bharat, PLI-led manufacturing push, and global supply chain re-alignments. The seaways division is expected to sustain strong performance led by increased freight rates and normalization of OPM expected to be at a slower pace than earlier envisaged. The addition of one more ship would be keenly awaited and provide further fillip to its seaways division. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP based target of Rs. 890 factoring upwardly revised valuation for the seaways division.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	14x EV/EBITDA on FY2024E	1269	165
SCM	15x EV/EBITDA on FY2024E	2311	301
Seaways	13x EV/EBITDA on FY2024E	2897	377
Less: Net Debt		-244	-32
Value of core verticals		6721	875
Transystem JV	1x P/B	117	15
Price target			**890**

Source: Company, Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TCI	19.9	19.1	13.3	12.5	3.4	2.9	18.6	16.4
TCI Express	39.0	32.0	27.9	22.7	10.1	7.9	27.6	28.1
Mahindra Logistics	59.9	36.8	12.5	10.0	4.8	4.2	9.2	13.4

Source: Sharekhan Research

About company

TCI is India's leading integrated supply chain and logistics solutions provider with over six decades of experience. The company has an extensive pan-India network with presence across major districts. TCI has 12 mn. sq. ft. of warehousing space. The company has three broad business verticals. TCI Freight: It transports cargo on FTL/ LTL/small packages and consignments/over dimensional cargo.TCI Supply Chain Solutions: The core service offerings are supply chain consultancy, inbound logistics, warehousing/distribution centre management and outbound logistics. TCI Seaways: TCI Seaways owns six ships and caters to coastal cargo requirements for transporting containers and bulk cargo.

Investment theme

TCI has a strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics along with supply chain business with over six decades of experience gives it a distinctive advantage to capture the high growth potential in the logistics sector. TCI is expected to benefit from the logistics sector growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

Key Risks

- Slowdown in the macro-economy leading to weak logistics industry outlook.
- High concentration towards the automotive industry.
- Highly competitive industry.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman & Managing Director
Mr. Vineet Agarwal	Managing Director
Mr. Ashish Tiwari	Group Chief Financial Officer
Ms. Archana Pandey	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC AMC	6.36
2	HDFC Trustee	3.11
3	C. Robeco AMC	2.81
4	IDFC AMC	2.64
5	Sundaram AMC	1.07
6	Dimensional Fund	0.91
7	TATA AMC	0.83
8	GIC AMC	0.60
9	JP Morgan	0.51
10	LIC Nomura MF	0.46

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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