

**BUY**  
TP: Rs 270 | ▲ 28%

**TRANSPORT CORP OF INDIA**

Logistics

13 August 2020

## Multi-modal capabilities to the fore

Notwithstanding strong industry headwinds, Transport Corp (TRPC) reported a sturdy Q1FY21 print, underscoring the strength of its business model. Multi-modal capabilities cushioned the consolidated revenue decline to 39% YoY, better than peers, despite severe disruptions in road transport. Cost control measures restricted the fall in EBITDA to 48% YoY. TRPC has reached 80-85% of normal operations across segments and expects Q2 to be much better. We maintain our estimates and roll forward to a higher Sep'21 TP of Rs 270 (vs. Rs 240). **BUY.**

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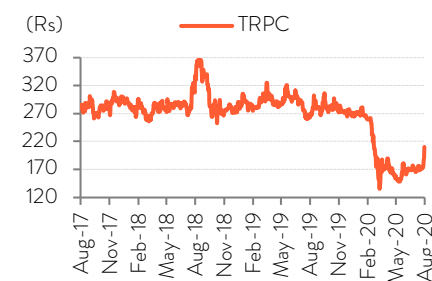
**Alternative modes cushioned topline:** TRPC's consolidated revenue decline of 39% YoY (est. 65% drop) was better than road logistics peers TCI Express (-65%) and Mahindra Logistics (-54%). Though road operations were severely disrupted, freight revenue (-32% YoY) was cushioned by rail-linked operations of the TCI Concor JV (+81% YoY). Seaways (-13.5% YoY) benefitted as competition waned amidst tough demand conditions. Supply chain revenue fell 53% YoY, hit by demand slump in the key auto vertical (80% of revenue).

Ticker/Price	TRPC IN/Rs 210
Market cap	US\$ 215.2mn
Shares o/s	77mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 313/Rs 122
Promoter/FPI/DII	67%/2%/9%

Source: NSE

**Efficient cost control:** Cost reduction measures that lowered staff cost/other expenses by 22%/46% YoY yielded above-estimated EBITDA of Rs 306mn (est. loss of Rs 194mn) and a healthy EBITDA margin of 7.5% (-130bps). EBIT margin for freight/SCS contracted 90bps/410bps YoY, while seaways EBIT margin fell by a sharper 14ppt due to higher operating costs.

## STOCK PERFORMANCE



**Green shoots visible:** TRPC's freight and supply chain segments have trudged back to 80-85% of normal operations, after a dismal April/May. Seaways has attained normalcy and is expected to post YoY growth in Q2, with TRPC also planning the opportunistic acquisition of a vessel available at distressed valuations. Growing traction in several user industries – agri-products, tractors, 2Ws, FMCG, tiles – should hold the company in good stead till demand recovers fully.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	27,536	27,178	25,098	29,510	32,935
EBITDA (Rs mn)	2,495	2,405	2,067	2,686	3,111
Adj. net profit (Rs mn)	1,460	1,531	953	1,404	1,673
Adj. EPS (Rs)	19.0	19.9	12.4	18.3	21.8
Adj. EPS growth (%)	17.7	4.6	(37.8)	47.4	19.2
Adj. ROAE (%)	17.7	16.0	8.9	11.9	12.8
Adj. P/E (x)	11.0	10.6	17.0	11.5	9.7
EV/EBITDA (x)	8.0	8.5	9.9	7.5	6.3

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED**

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Total revenues</b>	<b>4,057</b>	<b>6,592</b>	<b>(38.5)</b>	<b>6,678</b>	<b>(39.2)</b>
Operating expenses	3,313	5,369	(38.3)	5,406	(38.7)
% of sales	81.6	81.5	20bps	81.0	70bps
Employee expenses	301	384	(21.6)	420	(28.4)
% of sales	7.4	5.8	159bps	6.3	112bps
Other expenses	138	255	(46.1)	266	(48.3)
% of sales	3.4	3.9	(48bps)	4.0	(59bps)
Total expenditure	3,751	6,008	(37.6)	6,092	(38.4)
<b>EBITDA</b>	<b>306</b>	<b>584</b>	<b>(47.6)</b>	<b>586</b>	<b>(47.7)</b>
EBITDA margin (%)	7.5	8.9	(131bps)	8.8	(122bps)
Depreciation	206	199	3.4	208	(0.7)
EBIT	100	385	(74.0)	378	(73.5)
Interest expenses	74	87	(15.2)	85	(12.8)
Other income	30	35	(13.6)	68	(55.1)
<b>PBT</b>	<b>57</b>	<b>333</b>	<b>(82.9)</b>	<b>361</b>	<b>(84.3)</b>
PBT margin (%)	1.4	5.1	(365bps)	5.4	(401bps)
Share of profit/(loss) from JV	(1)	84	(101.4)	57	(102.1)
<b>PBT - after share of profit/(loss) from JV</b>	<b>56</b>	<b>417</b>	<b>(86.6)</b>	<b>418</b>	<b>(86.7)</b>
Extraordinary income/(expense)	-	-	-	-	-
Tax rate	9	72	(88.2)	57	(85.1)
Tax rate (%) – total	15.3	17.3	(207bps)	13.6	166bps
<b>Reported PAT</b>	<b>47</b>	<b>344</b>	<b>(86.3)</b>	<b>362</b>	<b>(86.9)</b>
Adjustment	-	-	-	-	-
<b>Adjusted PAT</b>	<b>47</b>	<b>344</b>	<b>(86.3)</b>	<b>362</b>	<b>(86.9)</b>
Adjusted PAT margin (%)	1.2	5.2	(406bps)	5.4	(425bps)
<b>Adjusted EPS</b>	<b>0.6</b>	<b>4.5</b>	<b>(86.3)</b>	<b>4.7</b>	<b>(86.9)</b>

Source: Company, BOBCAPS Research

**FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED**

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Freight segment</b>					
Revenue	2,301	3,386	(32.0)	3,671	(37.3)
EBIT	41	90	(55.1)	121	(66.6)
EBIT margin	1.8	2.7	(91bps)	3.3	(155bps)
<b>Supply chain management segment</b>					
Revenue	1,145	2,439	(53.1)	2,142	(46.5)
EBIT	32	168	(81.1)	107	(70.2)
EBIT margin	2.8	6.9	(410bps)	5.0	(220bps)
<b>Seaways segment</b>					
Revenue	682	789	(13.5)	1,046	(34.8)
EBIT	41	157	(74.1)	225	(82.0)
EBIT margin	6.0	19.8	(1,389bps)	21.5	(1,557bps)

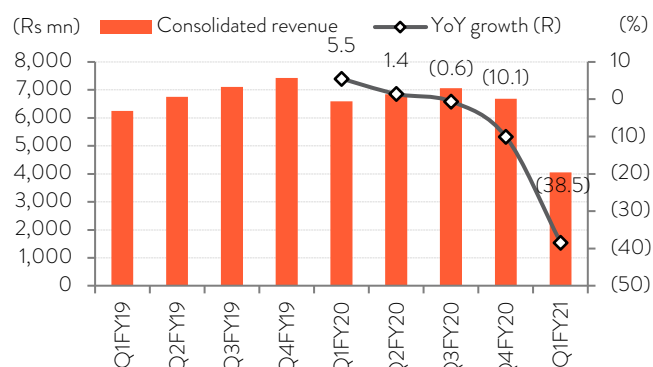
Source: Company, BOBCAPS Research

**FIG 3 – QUARTERLY PERFORMANCE – STANDALONE**

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Total revenues</b>	<b>3,280</b>	<b>6,121</b>	<b>(46.4)</b>	<b>6,257</b>	<b>(47.6)</b>
Operating expenses	2,587	4,942	(47.7)	5,025	(48.5)
% of sales	78.9	80.7	(186bps)	80.3	(143bps)
Employee expenses	289	372	(22.5)	408	(29.2)
% of sales	8.8	6.1	272bps	6.5	229bps
Other expenses	126	245	(48.6)	245	(48.6)
% of sales	3.8	4.0	(16bps)	3.9	(8bps)
Total expenditure	3,001	5,559	(46.0)	5,677	(47.1)
<b>EBITDA</b>	<b>279</b>	<b>562</b>	<b>(50.5)</b>	<b>580</b>	<b>(52.0)</b>
EBITDA margin (%)	8.5	9.2	(69bps)	9.3	(78bps)
Depreciation	195	186	4.9	197	(0.7)
<b>EBIT</b>	<b>83</b>	<b>376</b>	<b>(77.8)</b>	<b>383</b>	<b>(78.3)</b>
Interest expenses	70	82	(15.5)	80	(12.8)
Other income	89	75	18.2	67	33.6
<b>PBT</b>	<b>103</b>	<b>369</b>	<b>(72.2)</b>	<b>370</b>	<b>(72.2)</b>
PBT margin (%)	3.1	6.0	(290bps)	5.9	(278bps)
Extraordinary income/(expense)	-	-	-	-	-
Tax rate	4	72	(94.3)	57	(92.8)
Tax rate (%) – total	4.0	19.4	(1,539bps)	15.5	(1,147bps)
<b>Reported PAT</b>	<b>99</b>	<b>297</b>	<b>(66.8)</b>	<b>313</b>	<b>(68.5)</b>
Adjustment	-	-	-	-	-
<b>Adjusted PAT</b>	<b>99</b>	<b>297</b>	<b>(66.8)</b>	<b>313</b>	<b>(68.5)</b>
Adjusted PAT margin (%)	3.0	4.9	(185bps)	5.0	(199bps)
<b>Adjusted EPS</b>	<b>1.3</b>	<b>3.9</b>	<b>(66.8)</b>	<b>4.1</b>	<b>(68.5)</b>

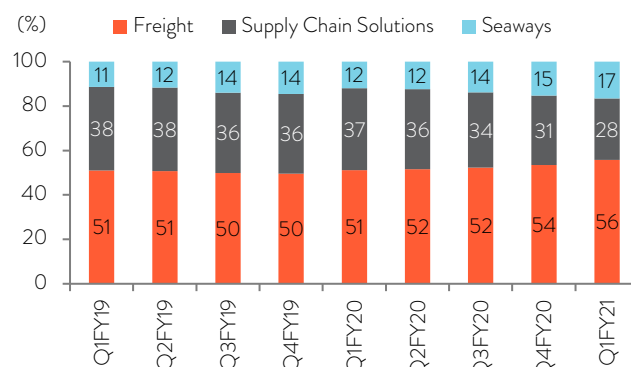
Source: Company, BOBCAPS Research

**FIG 4 – CONSOLIDATED REVENUE DECLINED 39% YOY**



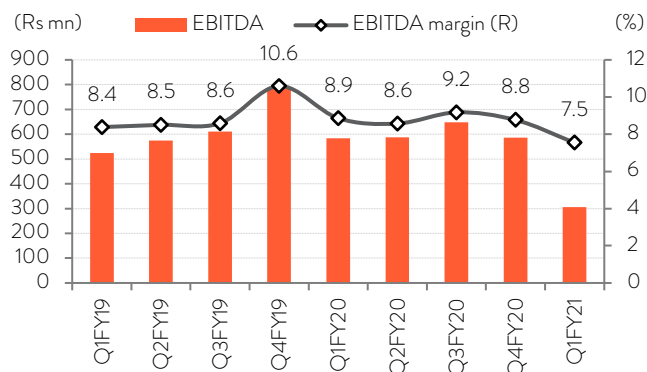
Source: Company, BOBCAPS Research

**FIG 5 – SEAWAYS AND FREIGHT SEGMENTS INCREASED SHARE IN CONSOL. REVENUE MIX**



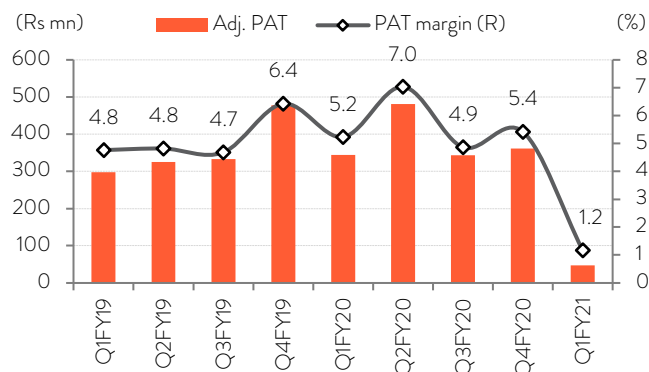
Source: Company, BOBCAPS Research

**FIG 6 – EBITDA MARGIN CONTRACTED BY 130BPS TO 7.5%**



Source: Company, BOBCAPS Research

**FIG 7 – CONSOLIDATED ADJ. PAT (AFTER JV PROFIT SHARE) DECLINED 86% YOY**



Source: Company, BOBCAPS Research

**FIG 8 – CAPEX PLAN AND FUNDING PATTERN**

(Rs mn)	FY19	FY20	FY21P
<b>Capex details</b>			
Hub centres and small warehouses	463	152	150
Ships	199	509	400
Containers	382	187	280
Trucks and other vehicles	417	241	340
Others (IT, wind energy, warehouse equipment)	54	25	80
<b>Total</b>	<b>1,515</b>	<b>1,114</b>	<b>1,250</b>
<b>Funding pattern</b>			
Debt	964	440	400
Equity	-	-	-
Internal accruals	551	674	850
<b>Total</b>	<b>1,515</b>	<b>1,079</b>	<b>1,250</b>

Source: Company, BOBCAPS Research

## Valuation methodology

TRPC's Q1FY21 performance was better than our expectations. However, we cautiously maintain our FY21/FY22 estimates considering near-term demand headwinds (state lockdowns, tepid primary freight availability). Management expects operations to improve sequentially in Q2, but has not issued any guidance for FY21.

We continue to value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core business segments and P/E multiple for its 49% stake in the Transystem JV. Rolling valuations forward, we raise our Sep'21 target price to Rs 270 from Rs 240, set at unchanged TTM Sep'22E EBITDA multiples of 6x/8x/7x for the freight/SCS/seaways segments. Reiterate BUY.

We continue to like TRPC for its multimodal capability – road, coastal shipping, and rail (through the JV with Container Corp – TCI Concor), decades of established credentials in the logistics sector, and robust clientele across segments. The company should also benefit from rising LTL share within the freight segment and increasing logistics outsourcing trends in its 3PL/SCS segment.

Given the steady earnings recovery expected, the stock looks attractive at current valuations of 11.5x FY22E EPS. Though the macro slowdown remains a near-term headwind, we maintain our positive stance on the company given robust long-term business prospects.

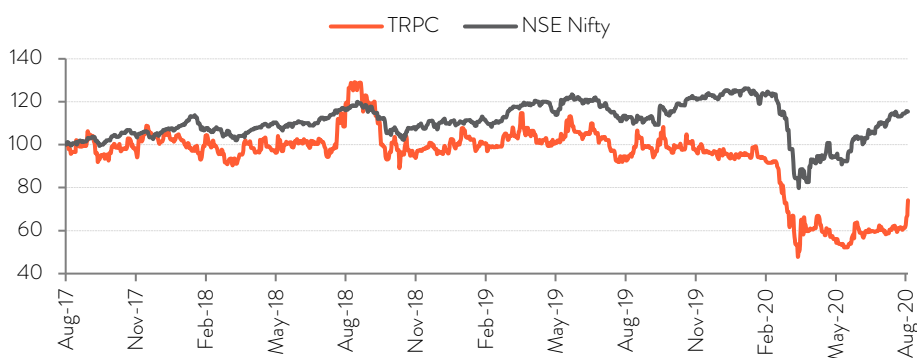
### FIG 9 – VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
<b>Freight segment</b>	
TTM Sep'22 EBITDA	665
EV/EBITDA multiple applied (x)	6.0
<b>Total EV for the segment</b>	<b>3,993</b>
<b>Supply chain segment</b>	
TTM Sep'22 EBITDA	1,117
EV/EBITDA multiple applied (x)	8.0
<b>Total EV for the segment</b>	<b>8,993</b>
<b>Seaways segment</b>	
TTM Sep'22 EBITDA	1,211
EV/EBITDA multiple applied (x)	7.0
<b>Total EV for the segment</b>	<b>8,480</b>
<b>Total EV of the consolidated business (ex. JV)</b>	<b>21,405</b>
Net debt	3,305
<b>Equity value of the consolidated business (ex. JV)</b>	<b>18,100</b>
FY22E PAT of Transystem Logistics	558
P/E multiple applied (x)	10
Fair value of Transystem Logistics	5,578
Share of TRPC (%)	49

Segment-wise valuation	(Rs mn)
Valuation attributed to TRPC	2,733
Total equity value including JV	20,834
No. of shares (mn)	76.9
<b>Target price</b>	<b>270</b>

Source: Company, BOBCAPS Research

**FIG 10 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

Downside risks to our estimates include:

- continuing spread of the pandemic and a prolonged adverse impact on the economy,
- rise in competitive intensity adversely impacting seaways volumes and/or realisations, and
- prolonged slowdown in the auto industry – a key end-user vertical for the seaways segment.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>27,536</b>	<b>27,178</b>	<b>25,098</b>	<b>29,510</b>	<b>32,935</b>
EBITDA	2,495	2,405	2,067	2,686	3,111
Depreciation	774	825	930	1,044	1,148
EBIT	1,721	1,580	1,137	1,643	1,963
Net interest income/(expenses)	(374)	(343)	(336)	(334)	(321)
Other income/(expenses)	195	201	179	208	222
Exceptional items	0	0	0	0	0
EBT	1,542	1,438	979	1,517	1,864
Income taxes	(333)	(159)	(253)	(373)	(477)
Extraordinary items	(7)	(99)	0	0	0
Min. int./Inc. from associates	251	252	226	260	286
<b>Reported net profit</b>	<b>1,453</b>	<b>1,432</b>	<b>953</b>	<b>1,404</b>	<b>1,673</b>
Adjustments	7	99	0	0	0
<b>Adjusted net profit</b>	<b>1,460</b>	<b>1,531</b>	<b>953</b>	<b>1,404</b>	<b>1,673</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	674	639	537	629	701
Other current liabilities	1,336	1,259	1,513	1,779	1,805
Provisions	65	102	94	111	124
Debt funds	4,722	4,236	4,536	4,186	3,836
Other liabilities	0	0	0	0	0
Equity capital	153	154	154	154	154
Reserves & surplus	8,819	10,142	11,095	12,288	13,626
Shareholders' fund	8,972	10,296	11,248	12,441	13,780
<b>Total liabilities and equities</b>	<b>15,770</b>	<b>16,531</b>	<b>17,928</b>	<b>19,146</b>	<b>20,245</b>
Cash and cash eq.	155	259	595	881	834
Accounts receivables	5,151	4,873	5,501	6,064	6,767
Inventories	53	66	61	81	90
Other current assets	1,583	1,877	1,970	2,044	2,282
Investments	1,168	1,354	1,354	1,354	1,354
Net fixed assets	7,263	7,479	8,015	8,221	8,323
CWIP	40	216	0	0	0
Intangible assets	5	5	5	5	5
Deferred tax assets, net	(390)	(302)	(302)	(302)	(302)
Other assets	741	706	730	800	893
<b>Total assets</b>	<b>15,770</b>	<b>16,531</b>	<b>17,928</b>	<b>19,146</b>	<b>20,245</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	2,234	2,356	1,882	2,447	2,821
Interest expenses	374	343	336	334	321
Non-cash adjustments	(55)	(88)	0	0	0
Changes in working capital	(940)	(69)	(596)	(351)	(933)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>1,613</b>	<b>2,542</b>	<b>1,622</b>	<b>2,430</b>	<b>2,209</b>
Capital expenditures	(1,261)	(1,216)	(1,250)	(1,250)	(1,250)
Change in investments	(124)	(185)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(1,386)</b>	<b>(1,401)</b>	<b>(1,250)</b>	<b>(1,250)</b>	<b>(1,250)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	312	(487)	300	(350)	(350)
Interest expenses	(374)	(343)	(336)	(334)	(321)
Dividends paid	(138)	(201)	0	(211)	(335)
Other financing cash flows	(14)	(6)	0	0	0
<b>Cash flow from financing</b>	<b>(214)</b>	<b>(1,037)</b>	<b>(36)</b>	<b>(895)</b>	<b>(1,005)</b>
<b>Changes in cash and cash eq.</b>	<b>13</b>	<b>104</b>	<b>336</b>	<b>285</b>	<b>(46)</b>
<b>Closing cash and cash eq.</b>	<b>155</b>	<b>259</b>	<b>595</b>	<b>881</b>	<b>834</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	18.6	12.4	18.3	21.8
Adjusted EPS	19.0	19.9	12.4	18.3	21.8
Dividend per share	1.8	2.0	0.0	2.7	4.4
Book value per share	116.4	133.2	145.6	161.2	178.6

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.7	0.8	0.8	0.7	0.6
EV/EBITDA	8.0	8.5	9.9	7.5	6.3
Adjusted P/E	11.0	10.6	17.0	11.5	9.7
P/BV	1.8	1.6	1.4	1.3	1.2

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	94.7	106.4	97.3	92.6	89.8
Interest burden (PBT/EBIT)	89.6	91.0	86.2	92.3	95.0
EBIT margin (EBIT/Revenue)	6.2	5.8	4.5	5.6	6.0
Asset turnover (Revenue/Avg TA)	2.1	1.9	1.6	1.8	1.9
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.4	1.4	1.3
Adjusted ROAE	17.7	16.0	8.9	11.9	12.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets



**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	17.2	(1.3)	(7.7)	17.6	11.6
EBITDA	15.3	(3.6)	(14.1)	30.0	15.8
Adjusted EPS	17.7	4.6	(37.8)	47.4	19.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.1	8.8	8.2	9.1	9.4
EBIT margin	6.2	5.8	4.5	5.6	6.0
Adjusted profit margin	5.3	5.6	3.8	4.8	5.1
Adjusted ROAE	17.7	16.0	8.9	11.9	12.8
ROCE	12.9	10.9	7.4	10.0	11.3
<b>Working capital days (days)</b>					
Receivables	68	65	80	75	75
Inventory	1	1	1	1	1
Payables	10	9	9	9	9
<b>Ratios (x)</b>					
Gross asset turnover	3.2	2.8	2.3	2.4	2.4
Current ratio	3.3	3.5	3.8	3.6	3.8
Net interest coverage ratio	4.6	4.6	3.4	4.9	6.1
Adjusted debt/equity	0.5	0.4	0.4	0.3	0.2

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

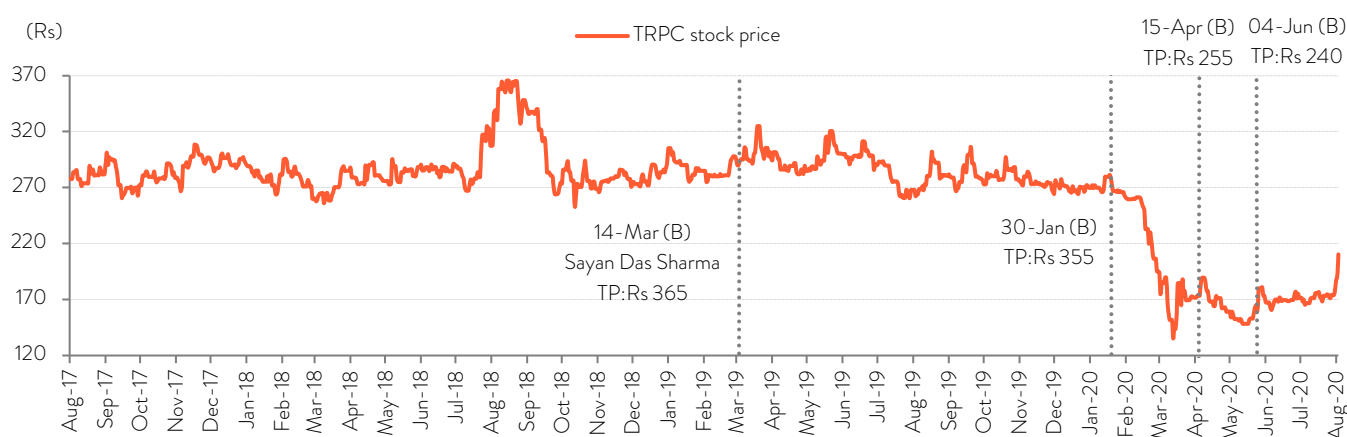
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: TRANSPORT CORP OF INDIA (TRPC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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