

TRANSPORT CORPORATION OF INDIA

Rating: ◀▶ | Target price: ◀▶ | EPS: ◀▶

CMP
Rs. 707

Target Price
Rs. 855

Rating
BUY



ONE YEAR OUTLOOK

Business & Earnings ◀▶

- Maintain our positive stance on TRPC as it is expected to benefit from 1) sustained thrust in demand for coastal shipping, 2) recovery in automotive demand coupled with addition of new clientele driving 3PL growth (TCI Supply Chain (SCS)), 3) traction in multimodal logistics & 4) increasing contribution of less-than-truckload (LTL) in freight segment (margin-accretive).
- In 1QFY23, Seaways revenue grew 33% YoY while EBITDA margins at 40.7% declined 400bps QoQ due to steeper input cost. We factor in margins to hover at 39% in FY23E and normalize to ~31% in FY24E. Given sharp rise in ship procurement cost, we pencil in ship addition for 2HFY23E. Expect Seaways segment's revenue and EBITDA CAGR of 27%/9% respectively(FY22-24E).
- SCS segment's revenue grew 12% QoQ as automotive production improved sequentially. Expect recovery in automotive demand (~80% of revenues), multimodal opportunities (3 trains to carry finished vehicles) and cold chain opportunities to drive revenue/EBITDA CAGR of 20%/19% (FY22-24E).
- Freight division is likely to benefit from 1) higher LTL contribution (40% by FY23-24 from 35% in FY22), 2) shift from unorganised sector, and 3) growth in multimodal logistics. Expect revenue and EBITDA CAGR (FY22-24E) of 16%/24% respectively.

Valuation Multiples ◀▶

- Valuing TRPC based on SOTP (page 3) to arrive at TP of Rs.855 (FY24). Our multiple in Freight (6x EVEBITDA) and Seaways (11x EVEBITDA) factors in increasing share of LTL in overall freight revenues (RoCE accretive), strong growth drivers, and healthy margins. Despite capex (~Rs. 4.5bn through FY23-24) towards addition of ship, infrastructure and technology, RoCEs likely to sustain at 19% through FY24.

FINANCIAL SUMMARY

	Net Sales (Rs mn)	EBITDA (%)	PAT (Rs mn)	EPS (Rs)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY21	24,520	10.1	1,348	17.6	41	23	13
FY22	29,046	13.4	2,674	34.6	21	14	22
FY23E	34,892	12.4	2,854	36.9	19	13	20
FY24E	41,541	12.3	3,444	44.6	16	11	20
FY25E	47,160	13.1	4,369	56.5	13	8	21

THREE YEAR OUTLOOK

Business & Earnings ◀▶

- Expect TRPC to benefit from 1) shift in volumes from unorganised to organized sector, and 2) traction in multimodal logistics (TRPC is one of the few players with presence across value chain), which would drive revenue & EBITDA CAGR of 17%/18% respectively through FY22-26E.
- 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 & fleet of ships for waterway transportation) allows the company to provide efficient end-to-end logistics solutions. Robust demand for multimodal logistics is likely to drive coastal shipping volume growth, benefiting Seaways division. Expect addition of new ship every 15-18 months to cater to incremental demand. However, increasing competition may dilute realization and profitability.
- Expect freight segment to benefit from higher contribution from LTL services. Freight segment's share in overall revenues to reduce from 47% in FY22 to ~40% by FY26E.

Valuation Multiples ◀▶

- Improving operating cashflows, combined with reducing debt, are expected to drive RoCE (12% in FY21 to ~22% in FY26E). Based on FY26E estimates, we see a potential upside of 80% (incl. dividends).

KEY ESTIMATES REVISION

	FY23E			FY24E		
	Old	New	Change	Old	New	Change
Sales	33,742	34,892	3%	40,205	41,541	3%
EBITDA (%)	12.8	12.4	-40 bps	12.6	12.3	-30 bps
PAT	2,874	2,854	-1%	3,417	3,444	1%
EPS	37.2	36.9	-1%	44.2	44.6	1%
Target P/E	Before Results:		0.0	After Results:		11.1

All figures in Rs.Mn

OUTLOOK REVIEW 1QFY23

05 August 2022

Industry LOGISTICS

Key Stock Data

Bloomberg	TRPC IN
Shares o/s	78mn
Market Cap	Rs. 55bn (\$691mn)
52-wk High-Low	Rs. 859-388
3m ADV	Rs. 64mn (\$1mn)
F&O	No

Latest Shareholding (%)

	Sep-21	Dec-21	Mar-22
Promoters	66.5	66.5	66.6
Institutions	14.8	14.9	14.9
Public	18.7	18.5	18.5
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1m	3m	12m
TRPC	-1.0	2.4	58.5
Sensex	9.5	4.7	7.2

RESEARCH ANALYSTS

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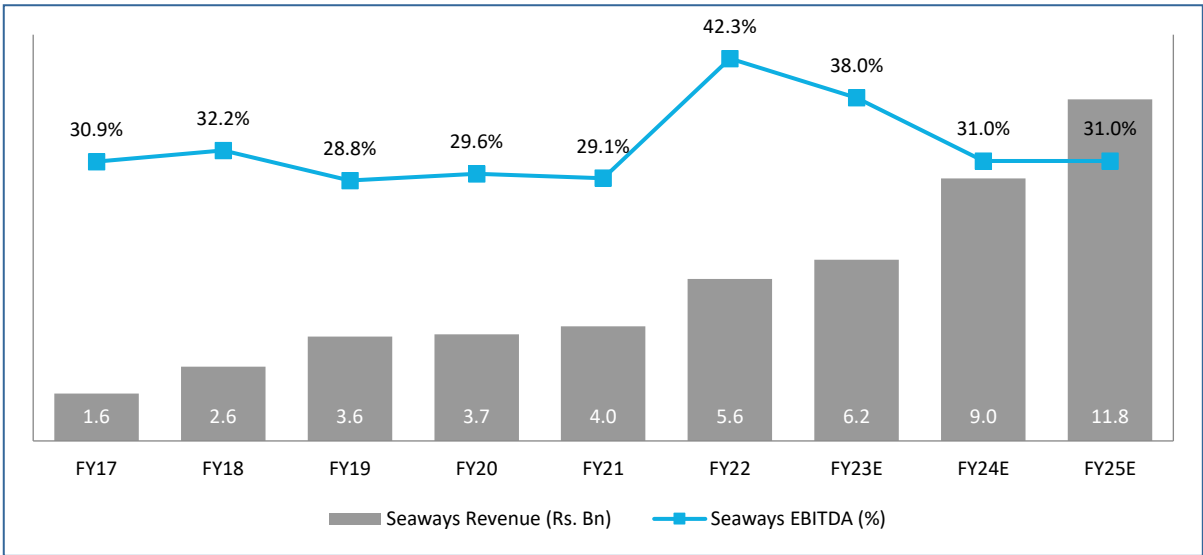
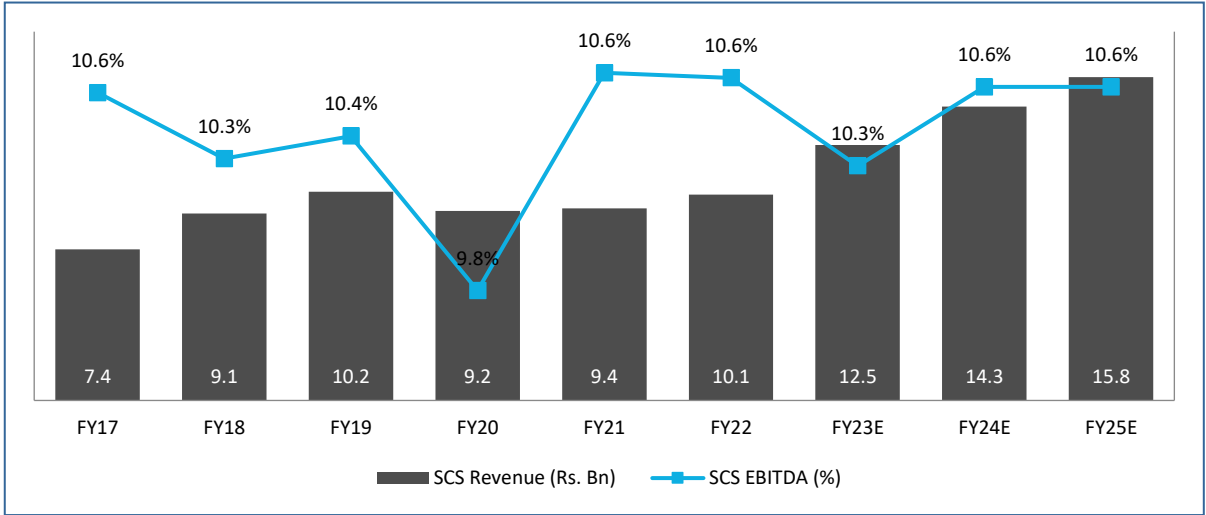
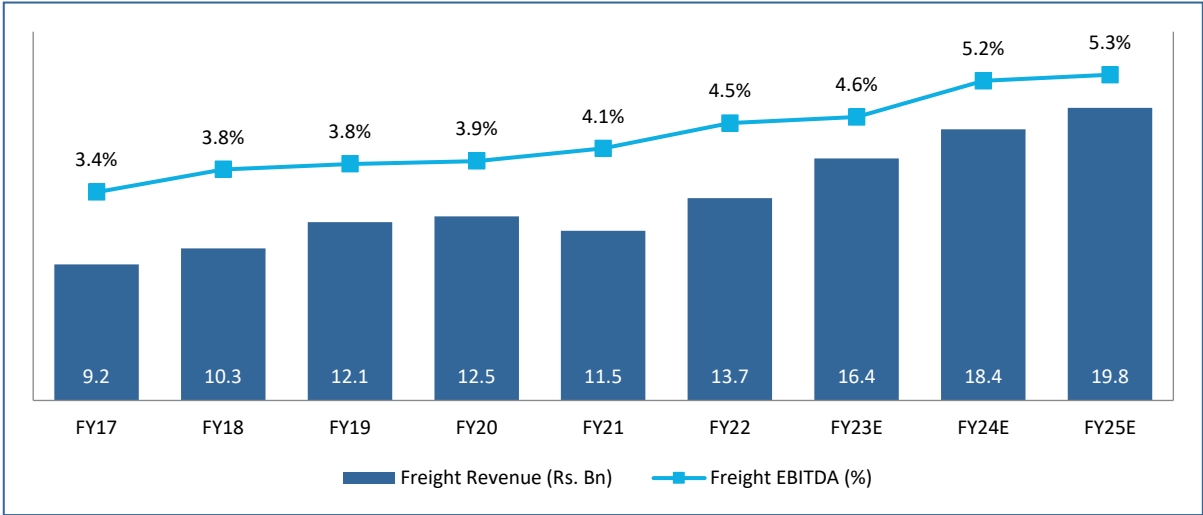
Quarterly Financial Statement

Consolidated Financial Results

Rs. mn\Period	1QFY23	1QFY22	yoy Growth	4QFY22	qoq Growth	FY21	FY22	Yoy Growth
Revenue	8,072	6,108	32.2%	7,979	1.2%	24,520	29,046	18.5%
Operating expense	6,374	4,835	31.8%	6,144	3.7%	19,738	22,548	14.2%
Emp. cost	453	391	15.8%	422	7.4%	1,402	1,638	16.8%
Other expenses	254	171	48.4%	277	-8.4%	902	956	6.0%
Total Expenditure	7,080	5,397	31.2%	6,843	3.5%	22,042	25,141	14.1%
EBITDA	992	711	39.5%	1,136	-12.7%	2,479	3,904	57.5%
Margin %	12.3%	11.6%	65 bps	14.2%	-195 bps	10.1%	13.4%	333 bps
D&A	278	234	19.2%	360	-22.6%	881	1,076	22.1%
EBIT	713	477	49.5%	777	-8.2%	1,598	2,829	77.1%
Other income	159	107	49.1%	78	105.2%	352	311	-11.4%
Net Interest exp (inc)	19	41	-54.2%	19	-1.6%	248	109	-56.0%
PBT	854	543	57.2%	835	2.2%	1,702	3,031	78.1%
Tax provision	88	59	47.5%	104	-16.1%	214	357	66.4%
Tax rate %	10.3%	10.9%	-6.2%	12.5%	-224 bps	12.6%	11.8%	-83 bps
PAT (Reported)	766	484	58.4%	731	4.8%	1,487	2,674	79.8%
PAT (Adjusted)	766	484	58.4%	731	4.8%	1,452	2,674	84.2%
Adjusted PAT Margin %	9.5%	7.9%	157 bps	9.2%	33 bps	5.9%	9.2%	328 bps
Shares Outstanding	77	77		77		77	77	
EPS (Reported)	10.0	6.3	58.4%	9.5	5.8%	19.4	34.6	78.1%
EPS (Adjusted)	10.0	6.3	58.4%	9.5	5.8%	19.0	34.6	82.4%

- TCI's freight segment reported revenues of Rs. 3.8bn, up 8% 3Y CAGR and down 4% QoQ. The segment's EBIT margins at 3.5%, were down 80bps sequentially
- Supply Chain segment reported revenues at Rs. 2.9bn, up 6% 3Y CAGR and 12% QoQ. EBIT margins at 5.4%, were down 170bps sequentially.
- Seaways segment revenues at Rs. 1.5bn, were up 25% 3Y CAGR and down 5% QoQ. EBIT margins at 30.2% expanded 53bps QoQ.

Healthy growth in Seaways segment to be driven by ship addition in 2HFY23E; SCS segment to benefit from automotive demand recovery



SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		5,733	6x FY24e EV/EBITDA
TCI SCS		22,790	15x FY24e EV/EBITDA
TCI Seaways		30,859	11x FY24e EV/EBITDA
Others		75	2x FY24e EV/EBITDA
Net Cash(Net Debt)		1,066	
Value from TCI	783	60,523	91.3% of Total
Value from JV	74	5,727	8.7% of Total; Adjusted for hold co discount
No. Of Shares O/s (mn)		77	
Target Price	855	66,250	

Financial Summary

Standalone Financial Statements

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Profit & Loss										
Revenue	18,042	21,778	25,583	25,134	24,520	29,046	34,892	41,541	47,160	53,855
Gross profit	3,502	4,288	4,888	4,864	4,782	6,498	7,706	9,258	10,605	12,218
EBITDA	1,575	2,083	2,442	2,335	2,479	3,904	4,337	5,110	6,172	7,505
Depreciation	578	673	752	777	881	1,076	1,153	1,288	1,388	1,495
EBIT	996	1,410	1,690	1,558	1,598	2,829	3,184	3,822	4,784	6,010
Other Income	177	245	269	283	352	311	305	350	488	694
Interest expense	286	299	356	324	248	109	50	22	8	1
Exceptional items	0	40	0	99	140	0	0	0	0	0
PBT	888	1,316	1,603	1,419	1,562	3,031	3,438	4,149	5,263	6,704
Reported PAT (after minority interest)	703	1,037	1,276	1,264	1,348	2,674	2,854	3,444	4,369	5,565
Adj PAT	703	1,037	1,276	1,264	1,348	2,674	2,854	3,444	4,369	5,565
EPS (Rs.)	9.2	13.5	16.7	16.5	17.6	34.6	36.9	44.6	56.5	72.0
Balance Sheet										
Net Worth	5,809	6,769	8,370	9,500	10,804	13,131	15,575	18,609	22,568	27,723
Total debt	4,066	4,238	4,496	4,083	2,735	765	763	561	359	343
Other liabilities and provisions	318	535	1,290	1,263	1,375	1,491	1,742	2,027	2,268	2,555
Total Networth and liabilities	10,584	11,985	14,546	15,109	15,177	15,634	18,327	21,444	25,442	30,868
Gross Fixed assets	8,761	10,345	11,917	13,159	14,305	15,382	18,532	19,922	21,512	23,102
Net fixed assets	5,325	6,236	7,055	7,521	7,786	7,787	9,784	9,886	10,088	10,183
Capital work-in-progress	568	563	40	216	52	73	73	73	73	73
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	298	313	938	888	858	998	998	998	998	998
Cash and bank balances	184	130	122	178	308	581	30	1,627	4,225	8,127
Loans & advances and other assets	1,601	1,604	2,221	2,324	2,223	2,237	2,687	3,199	3,631	4,147
Net working capital	2,608	3,139	4,170	3,982	3,951	3,959	4,756	5,662	6,428	7,340
Total assets	10,584	11,985	14,546	15,109	15,177	15,634	18,327	21,444	25,442	30,868
Capital Employed	10,266	11,450	13,256	13,846	13,802	14,142	16,585	19,417	23,174	28,313
Invested Capital (CE - cash - CWIP)	9,514	10,757	13,094	13,452	13,442	13,489	16,482	17,717	18,877	20,113
Net debt	3,882	4,109	4,375	3,905	2,427	184	733	-1,066	-3,866	-7,784
Cash Flow										
Cash flows from Operations (Pre-tax)	1,115	2,119	2,060	2,748	2,976	3,993	3,595	4,304	5,694	7,058
Cash flows from Operations (post-tax)	883	1,768	1,729	2,353	3,043	3,556	3,010	3,599	4,799	5,918
Capex	1,141	1,582	1,046	1,289	1,129	678	3,150	1,390	1,590	1,590
Free cashflows	-258	186	682	1,064	1,914	2,878	-140	2,209	3,209	4,328
Free cashflows (post interest costs)	-544	-113	327	741	1,667	2,769	-190	2,187	3,201	4,328
Cash flows from Investing	-1,174	-1,538	-1,481	-1,346	-959	-727	-3,150	-1,390	-1,590	-1,590
Cash flows from Financing	370	316	-255	-964	-1,941	-2,567	-411	-611	-611	-426
Total cash & liquid investments	184	130	122	178	308	581	30	1,627	4,225	8,127

Financial Summary

Standalone Financial Statements

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Key Variables										
TCI Freight Revenue	9,223.1	10,311.0	12,096.4	12,477.9	11,508.2	13,715.7	16,405.1	18,373.7	19,843.6	21,431.1
TCI SCS Revenue	7,374.4	9,125.5	10,189.0	9,249.5	9,376.4	10,051.9	12,475.2	14,346.5	15,781.2	17,359.3
TCI Seaways Revenue	1,639.3	2,564.2	3,593.4	3,677.4	3,952.8	5,577.8	6,241.1	9,049.6	11,764.5	15,293.9
Growth ratios (%)										
Revenue	-20.1	20.7	17.5	-1.8	-2.4	18.5	20.1	19.1	13.5	14.2
EBITDA	-13.6	32.3	17.2	-4.4	6.2	57.5	11.1	17.8	20.8	21.6
Adj PAT	-17.4	47.6	23.0	-1.0	6.6	98.4	6.7	20.7	26.9	27.4
Margin ratios (%)										
Gross	19.4	19.7	19.1	19.4	19.5	22.4	22.1	22.3	22.5	22.7
EBITDA	8.7	9.6	9.5	9.3	10.1	13.4	12.4	12.3	13.1	13.9
Adj PAT	3.9	4.8	5.0	5.0	5.5	9.2	8.2	8.3	9.3	10.3
Performance ratios										
Pre-tax OCF/EBITDA (%)	71	102	84	118	120	102	83	84	92	94
OCF/IC (%)	9	16	13	17	23	26	18	20	25	29
RoE (%)	13	16	17	14	13	22	20	20	21	22
RoCE (%)	10	12	13	12	12	20	19	19	21	22
RoCE (Pre-tax) (%)	12	15	16	14	14	22	23	23	25	26
Fixed asset turnover (x)	2.2	2.3	2.3	2.0	1.8	2.0	2.1	2.2	2.3	2.4
Total asset turnover (x)	1.8	1.9	1.9	1.7	1.6	1.9	2.1	2.1	2.0	1.9
Financial stability ratios										
Net Debt to Equity (x)	0.7	0.6	0.5	0.4	0.2	0.0	0.0	-0.1	-0.2	-0.3
Net Debt to EBITDA (x)	2.5	2.0	1.8	1.7	1.0	0.0	0.2	-0.2	-0.6	-1.0
Interest cover (x)	3	6	5	7	12	33	60	161	586	10,438
Cash conversion days	53	53	59	58	59	50	50	50	50	50
Total Working capital days	79	71	73	73	71	59	60	60	60	61
Valuation metrics										
Fully Diluted Shares (mn)	76	77	77	77	77	77	77	77	77	77
Market cap (Rs.mn)					54,839					
P/E (x)	78	53	43	43	41	21	19	16	13	10
P/Sales (x)	3.0	2.5	2.1	2.2	2.2	1.9	1.6	1.3	1.2	1.0
EV (Rs.mn) (ex-CWIP)	58,720	58,947	59,214	58,743	57,266	55,023	55,572	53,772	50,973	47,055
EV/ EBITDA (x)	37	28	24	25	23	14	13	11	8	6
EV/ OCF(x)	67	33	34	25	19	15	18	15	11	8
FCF Yield (%)	-0.5	0.3	1.2	1.9	3.5	5.2	-0.3	4.0	5.9	7.9
Price to BV (x)	9.4	8.1	6.6	5.8	5.1	4.2	3.5	2.9	2.4	2.0
Dividend yield (%)	0.2	0.3	0.3	0.3	0.2	0.7	0.7	0.7	0.7	0.7
Dividend pay-out (%)	14	14	13	15	7	15	14	12	9	7

Crystal Ball Gazing

Over FY22-26E, revenue growth is likely to be driven by 1) shift from unorganised to organized sector, 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-FY22	FY22-FY26E
Revenues CAGR	5%	9%	17%
Gross Margin	19%	20%	22%
EBITDA CAGR	3%	18%	18%
EBITDA margin	7.6%	9.4%	13.0%
EPS CAGR	6%	27%	20%
Total Asset Turnover (x)	2.5	2.0	2.0
Total WC days	56	66	60
Pre-tax OCF/EBITDA (%)	87%	104%	91%
Post Tax OCF as a % of IC	15%	18%	24%
Debt/EBITDA	2.1	2.5	(0.3)

Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY22	FY22-FY26E
RoE (%)	15.2%	15.9%	21.1%
RoCE (%)	10.9%	12.6%	20.0%
RoIC (%)	15.6%	14.3%	24.3%
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	FY26 EBITDA (Rs.mn)	EV/EBITDA (x)	EV (Rs.mn)
TCI Freight	1,157	6.0	6,944
TCI SCS	1,838	13.0	23,899
TCI Seaways	4,741	11.0	52,152
Others	37	2.0	75
Net Debt (Rs.mn)			-7,784
Mkt Cap (Rs.mn)			90,854
Standalone TP			1,175
JV and Subs (Transystem, TCI Concor, Cold Chain)			82
Target Price			1,257

Entry = Rs. 707 @ 15.9x FY24E P/E

+

Cumulative Dividends of Rs.16/share

+

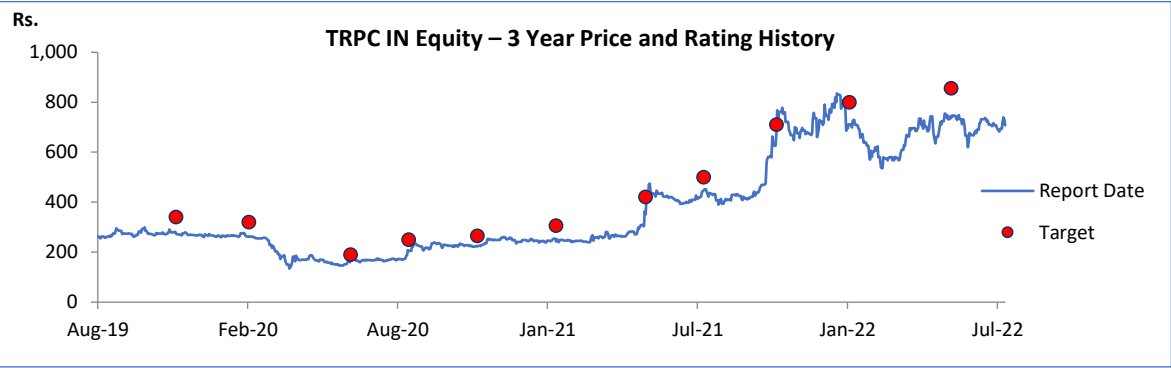
EPS CAGR of ~20%, implied exit multiple of 18x on FY26E P/E

=

Total Return of 80%

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.
31-May-22	744	855	BUY
28-Jan-22	724	800	BUY
01-Nov-21	630	710	BUY
05-Aug-21	446	500	BUY
27-May-21	367	420	Buy
08-Feb-21	257	305	Buy
05-Nov-20	226	265	Buy
14-Aug-20	210	250	Buy
05-Jun-20	159	190	Buy
03-Feb-20	266	320	Buy
07-Nov-19	289	340	Buy
02-Aug-19	260	310	Buy
29-May-19	315	360	Buy
15-Feb-19	279	365	Buy
06-Nov-18	270	365	Buy

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