

Transport Corporation Ltd

ADD

CMP Rs225

Target Rs234

Upside 4%

Decent show - Conference call takeaways

- ✓ **TCI Freight business:** Revenue declined by 9% yoy on standalone basis to Rs 2.8 bn while EBITDA stood at Rs 114mn. EBITDA Margins stood at 4.1% vs 3.6% YoY/2.5% qoq. The company has been able to ramp up operations to 85-90% of pre COVID levels amid increased movement of goods due to pent up demand and restocking due to festive season. Volumes have improved across the industries. Textile has picked up well in last couple of months. Freight rates have increased due to hike in fuel prices and expects the price to remain firm. The company witnessed a good demand for short and medium haul while weakness continued in long haul. LTL stood at 31% of total business. EBIT stood at Rs 98 mn and EBIT margin at 3.5%. RoCE for the quarter stood at 11.3%. Owning trucks benefited the company when there was a shortage of trucks and drivers. The company had paid extra cost to the drivers to bring them on board immediately post lockdown. Driver availability has improved over time but still to reach at Pre COVID levels.
- ✓ **Supply Chain business:** Revenues grew by 2% yoy on standalone basis to Rs 2.5bn driven by automotive demand revival and growth in E-commerce & FMCG. Consumer durable segment too has picked up well as pent-up demand is still visible. E-com segment will see good demand going ahead as change in consumer behavior is seen during the lockdown coupled with festive season. E-com may see drop to 85% post festive season as against usual trend of 50% drop. FMCG has seen flattish growth in urban areas due to stocking done in the past by customers. Auto, which forms a major portion of the revenue has seen demand in 2 wheeler and lower end 4 wheeler due to launch of new products, restocking of BS-6 and people buying small cars and 2 wheelers to maintain social distancing norms. EBITDA Margins remained stable at 10.3% vs 10.2% yoy/11.2% qoq on the back of better revenue realization and cost optimization measures. RoCE for the quarter stood at 12.4%.
- ✓ **Seaways business:** Revenue grew by 9% yoy on standalone basis to Rs 932 mn despite one ship being under dry dock. EBITDA Margins stood at 26.3% vs 26.2% yoy/18.6% qoq on the back of better revenue realization and cost optimization measures. Fuel prices remained stable for the past 6-7 months. RoCE for the quarter stood at 10%. It plans to add 1 new ship in H2FY21 amounting to capex of Rs 400-450 mn.
- ✓ **JV revenues during 1H FY21 stood as follows** a) TCI Concor (Rs.1.5 bn; +69% yoy) b) TCI ColdChain (Rs147 mn; +22% yoy) c) Transystem (Rs.12 bn; -52% yoy). The Rail segment (CONCOR JV) saw good volumes moving from road. The service and solution provided by the company to its customers and food grain movement via rail benefited the company.
- ✓ **Warehousing:** Huge demand for warehousing seen due to pre-Diwali season. FMCG and E-com segment has seen good demand. The company has currently 12mn Sqft and may add up further. The orders/day for E-com has increased from 25k-30k to ~60k.
- ✓ **Cold Chain segment:** The company is witnessing over capacity of cold chain in some areas and thus it is eyeing to buy strategic assets. It is also working with lot of vendors and companies under this segment. It has started to work with FMCG and Chemical companies.
- ✓ **Client addition:** The company has added clients in segments like FMCG/Chemicals/E-com. It also saw capacity addition in the existing customers' facility leading to higher demand for logistics services.

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- ✓ **Employee cost:** The company has started recruitment. 75 MBA and students and 250+ employees at lower level has been added. May consider increment in coming quarter. No salary cuts announced.
- ✓ The Company has lost a quarter of sales during 1H FY21. Q2 has picked up as against Q1 and expect the momentum to continue during 2H FY21.
- ✓ **Vaccine business distribution:** It's difficult to assess the volume, requirement of Cold chain facilities etc. However whenever it starts, the Company is prepared to work on it.

Other details

- ✓ **Ratings:** The Company retained its Commercial Paper rating of A1+ given by ICRA and AA rating from CRISIL for its Bankline Credit (upgraded from AA-)
- ✓ **Capex:** The company has spent Rs 297 mn till 1H FY21 and targets for Rs 1.5 Bn for FY21. It plans to add 1 new ship in H2FY21 amounting to Rs 400-450mn which is part of the planned capex.
- ✓ **DFCC:** Huge potential seen, DFCC will help the company to gain volumes from road and rail segment.
- ✓ **Ease of doing business:** The company is talks with ministry of commerce for ease of doing business through digitization and automation

Our view

- ✓ Overall improvement in macroeconomic trend and lifting of lockdown drove performance. With recent pickup in activity, we believe large part of the lost business would be recovered in next two quarters. The margins are expected to remain at normalized levels of ~8% with normalizing situation. The Multi Modal operations driven business model provides the Company an edge over its peers. It is in a better position to provide end-to-end service and cater to more segments. We largely retain our revenues and earnings estimates for FY21E and FY22E. **We maintain our ADD rating on the stock for target price of Rs234 (13x FY22 EPS).**

Transport Corporation Q2 FY21 results (Consolidated)

- ✓ Transport Corporation reported Consolidated topline growth of 1.8% yoy (to Rs.7.0 bn) as festive season pushed up demand for logistics and COVID related impact stabilized.
- ✓ Freight division moved back on track and reported consolidated revenues of Rs.3.5 bn (flat yoy/ +54% qoq) while supply chain solutions business grew by 1.4% yoy/+120% qoq.
- ✓ Seaways division posted 9.2% revenue growth (to Rs.682 mn).
- ✓ EBIT margins saw marked improvement in Freight segment (biggest revenue contributor). It stood at 3.4% during Q2 FY21 (2.9% in Q2 FY20).
- ✓ Overall Operating margin stood at 8.9% (+35 bps yoy).
- ✓ APAT stood at Rs.373 mn (-22.5% yoy).

Standalone highlights

- ✓ 1HFY21 standalone revenue mix stood at 45% Freight followed by 37%/16%/2% in Supply Chain/Seaways/Others respectively.
- ✓ Standalone revenue declined by 3% YoY driven by -9%/+2%/+9% growth in Freight/Supply Chain/Seaways Division. Energy division saw a sharp decline of 43% yoy.
- ✓ EBITDA stood at Rs 590 mn while margins stood at 9.6% vs 9% yoy/8.5% qoq.
- ✓ PAT declined 26% yoy to Rs 320 mn driven by higher EBITDA and lower interest cost.

Exhibit 1: Result table (Consolidated)

Y/e 31 Mar (Rs mn)	Q2 FY21	Q2 FY20	yoy(%)	Q1 FY21	qoq (%)
Revenue	6,969	6,846	1.8	4,057	71.8
Operating Profit	622	587	6.0	306	103.2
OPM(%)	8.9	8.6	35 bps	7.5	138 bps
Other Income	66	41	60.0	30	115.8
Depreciation	(209)	(203)	2.8	(206)	1.4
Interest	(69)	(82)	(16.1)	(74)	(6.2)
Exceptional item	-	(99)	NA	-	NA
PBT	410	244	68.1	57	620.7
Tax	(84)	47	NA	(9)	887.1
PAT	326	291	12.3	48	574.0
Share of JV/ Associate	47	92	(49.3)	(1)	NA
Reported PAT	373	382	(2.5)	47	689.6
Adjusted PAT	373	481	(22.5)	47	689.6

Exhibit 2: Segmental results (Consolidated)

Particular	Q2 FY21	Q2 FY20	yoy(%)	Q1 FY21	qoq (%)
Revenue (Rs. mn)					
Freight Division	3,549	3,548	0.0	2,301	54.2
Supply Chain Solution	2,513	2,478	1.4	1,145	119.5
Seaways Division	932	854	9.2	682	36.7
Energy Division	17	30	(43.4)	14	23.5
Revenue Mix (%)					
Freight Division	50.6%	51.3%		55.6%	
Supply Chain Solution	35.8%	35.9%		27.6%	
Seaways Division	13.3%	12.4%		16.5%	
Energy Division	0.2%	0.4%		0.3%	
EBIT (Rs. mn)					
Freight Division	120	101	18.3	41	196.3
Supply Chain Solution	166	158	5.1	32	424.9
Seaways Division	155	145	6.3	41	280.5
Energy Division	11	20	(47.1)	8	40.3
EBIT Margin (%)					
Freight Division	3.4%	2.9%		1.8%	
Supply Chain Solution	6.6%	6.4%		2.8%	
Seaways Division	16.6%	17.0%		6.0%	
Energy Division	64.3%	68.7%		56.6%	

Exhibit 3: Financial summary (Cons)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Revenues	27,536	27,178	24,991	28,918
yoy growth (%)	17.2%	-1.3%	-8.1%	15.7%
Operating profit	2,495	2,405	2,080	2,512
OPM (%)	9.1%	8.9%	8.3%	8.7%
Adjusted PAT	1,451	1,523	1,060	1,384
yoy growth (%)	17.8%	5.0%	-30.4%	30.5%
EPS (Rs)	18.9	19.8	13.8	18.0
P/E (x)	12.0	11.5	16.4	12.6
EV/EBITDA (x)	8.8	8.9	9.9	8.0
Debt/Equity (x)	0.5	0.4	0.3	0.2
RoE (%)	17.5	15.9	9.9	11.7

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