

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	226
12 month price target (INR)	285
Market cap (INR bn/USD bn)	17/0.2
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

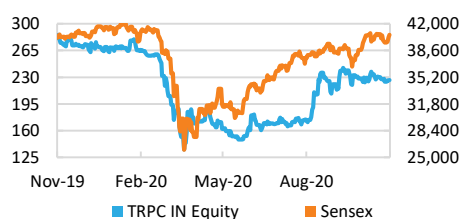
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	27,178	23,726	29,622	32,764
EBITDA	2,405	2,195	3,102	3,475
Adjusted profit	1,531	1,201	1,790	2,035
Diluted EPS (INR)	19.8	15.5	23.2	26.3
EPS growth (%)	5.4	(21.5)	49.0	13.7
RoAE (%)	14.9	11.3	15.3	15.5
P/E (x)	11.4	14.6	9.8	8.6
EV/EBITDA (x)	8.7	9.5	6.6	5.6
Dividend yield (%)	0.9	0.7	1.1	1.2

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Going strong

Transport Corporation of India (TCI) reported a strong recovery in Q2FY21: sales dipped only 3% YoY while margin held up. Despite operating at pre-covid-19 levels, management guided for an FY21 earnings fall of 15–20% due to H2FY21 uncertainty, which is conservative in our view.

We are bullish on TCI; its improving business mix should lift the margin and returns profile over the next three–four years, and this can drive a re-rating. Moreover, the stock is trading at 10x FY22E PE, thereby providing an ample margin of safety. Factoring in the strong Q2FY21, we are raising FY21/22E EPS by 20%/5%. Retain 'BUY' with a revised TP of INR285 (from INR250) while rolling forward the valuation.

Strong performance; guidance conservative

TCI's Q2FY21 sales decreased only 3%, YoY beating our estimates, while margin was stable at 9.6% (9% in Q2FY20). The freight division's revenue dipped 9% YoY, in line with the industry, and management stated volumes reverted to pre-covid-19 levels in September. The supply chain and seaways divisions clocked YoY growth of 2% and 9%, respectively—a positive surprise. TCI's JV with Container Corporation, TCI Concor, registered top-line growth of 59% YoY; in our view, some of this could be temporary and might reverse as the rail-road mix normalises. Citing continuing uncertainty over the pandemic's impact on the business, management remains conservative and guided for FY21 revenue and PAT at 80–85% of FY20 (which implies a YoY dip of ~6% in H2FY21 earnings).

Beyond the immediate near term

Our investment rationale for TCI is based on the 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 is part of the fast-growing 3PL category, which is expected to log a 13–15% CAGR over the next five–seven years. The company also plans to add another ship to its fleet in Q4FY21 due to favourable demand and supply dynamics, which should aid margin improvement.

Outlook and valuation: Retain 'BUY'

Factoring in the better-than-expected Q2FY21 performance, we are revising up FY21/22E EPS by 20%/5%. We retain 'BUY' with a revised SoTP-based target price of INR285 (up from INR250) while rolling forward the valuation to end-FY21, implying an FY22E PE of 12x.

Financials

Year to March	Q2FY21	Q2FY20	% Change	Q1FY21	% Change
Net Revenue	6,122	6,282	(2.6)	3,280	86.7
EBITDA	590	566	4.3	279	111.9
Adjusted Profit	320	432	(25.8)	99	224.5
Diluted EPS (INR)	4.2	5.6	(25.8)	1.3	224.5

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	27,178	23,726	29,622	32,764
Cost of Goods Sold	22,143	19,148	23,573	26,042
Employee costs	1,572	1,504	1,862	2,050
Other expenses	1,058	879	1,086	1,197
EBITDA	2,405	2,195	3,102	3,475
Depreciation	825	872	912	997
Less: Interest expense	343	347	349	352
Add: Other income	201	246	174	175
Profit before tax	1,438	1,223	2,015	2,302
Prov for tax	159	221	445	509
Less: Other adjustment	153	200	220	242
Reported profit	1,432	1,201	1,790	2,035
Less: Excp.item (net)	99	0	0	0
Adjusted profit	1,531	1,201	1,790	2,035
Diluted shares o/s	77	77	77	77
Adjusted diluted EPS	20	16	23	26
DPS (INR)	2.0	1.5	2.4	2.8
Tax rate (%)	11.1	18.1	22.1	22.1

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
EBITDA margin (%)	8.9	9.3	10.5	10.6
PBT growth (% YoY)	(6.7)	(15.0)	64.8	14.3
Net profit margin (%)	5.6	5.1	6.0	6.2
Revenue growth (% YoY)	(1.3)	(12.7)	24.9	10.6
EBITDA growth (% YoY)	(3.6)	(8.7)	41.3	12.0
Asset turnover (X)	2.0	1.6	1.8	1.9
Adj. profit growth (%)	5.4	(21.5)	49.0	13.7
EBIT margin (%)	5.8	5.6	7.4	7.6

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	4.0	4.0	4.0
SCM margin (%)	9.8	10.5	11.0	11.0
Real. per DWT (INR)	85,000	85,000	85,000	85,000
Freight div. (% YoY)	3.3	(20.5)	26.2	8.3
SCM growth(% YoY)	(8.9)	(12.0)	15.0	15.0
Seaways (% YoY)	3.5	(9.3)	54.7	5.6

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	11.4	14.6	9.8	8.6
Price/BV (x)	1.7	1.6	1.4	1.3
EV/EBITDA (x)	8.7	9.5	6.6	5.6
Dividend yield (%)	0.9	0.7	1.1	1.2

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	154	154	154	154
Reserves	10,085	10,901	12,246	13,784
Shareholders funds	10,239	11,054	12,400	13,938
Minority interest	57	47	47	47
Borrowings	3,720	3,985	4,035	4,085
Trade payables	639	504	631	697
Other liab & prov	2,159	1,745	1,745	1,745
Total liabilities	16,833	17,355	18,877	20,531
Net block	7,713	8,199	8,491	8,699
Intangible assets	5	6	6	6
Capital WIP	216	216	216	216
Total fixed assets	7,933	8,421	8,713	8,920
Non current inv	1,354	1,619	1,619	1,619
Cash/cash equivalent	259	625	1,143	2,045
Sundry debtors	4,873	4,285	5,049	5,589
Loans & advances	225	233	233	233
Other assets	1,717	1,703	1,652	1,656
Total assets	16,833	17,355	18,877	20,531

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	1,432	1,201	1,790	2,035
Add: Depreciation	825	872	912	997
Interest (net of tax)	230	232	234	236
Others	(81)	(1,085)	(279)	(301)
Changes in WC	117	953	(586)	(478)
Operating cash flow	2,523	2,174	2,071	2,489
Less: Capex	(1,321)	(1,505)	(1,204)	(1,204)
Free cash flow	1,202	669	867	1,285

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	14.9	11.3	15.3	15.5
RoCE (%)	13.1	10.8	15.0	15.4
Receivable days	67	70	58	59
Payable days	9	9	7	7
Cash conversion cycle	59	63	51	52
Working cap (% sales)	15.9	18.0	16.4	16.3
Gross debt/equity (x)	0.4	0.4	0.3	0.3
Net debt/equity (x)	0.3	0.3	0.2	0.1
Interest coverage (x)	4.6	3.8	6.3	7.0

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	5.4	(21.5)	49.0	13.7
RoE (%)	14.9	11.3	15.3	15.5
EBITDA growth (%)	(3.6)	(8.7)	41.3	12.0
Payout ratio (%)	10.6	9.9	10.4	10.4

TRANSPORT CORPORATION

Exhibit 1: Quarterly snapshot (standalone)

INR mn	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	YTD21	FY21E	FY22E
Revenue	6,122	6,282	(2.6)	3,280	86.7	9,402	21,374	26,918
Operating expenses	4,976	5,062	(1.7)	2,587	92.3	7,563	16,994	21,096
Employee benefit expenses	329	374	(11.9)	289	14.0	618	1,448	1,797
Others	227	281	(19.3)	126	80.4	353	819	1,016
Total expenditure	5,532	5,717	(3.2)	3,001	84.3	8,533	19,260	23,910
EBITDA	590	566	4.3	279	111.9	869	2,114	3,008
Depreciation	198	190	4.3	195	1.4	393	824	864
EBIT	392	376	4.3	83	370.8	476	1,290	2,145
Interest	64	77	(17.3)	70	(8.5)	133	322	322
Other income	71	84	(15.2)	89	(20.4)	160	246	174
Add: Exceptional items	0	99	N/A	0	N/A	0	0	0
Profit Before Tax	399	284	40.8	103	288.8	502	1,214	1,996
Less: Provision for Tax	79	-49	N/A	4	1,834.1	83	218	439
Reported Profit	320	333	(3.8)	99	224.5	419	994	1,556
Adjusted Profit	320	432	(25.8)	99	224.5	419	994	1,556
Adjusted Diluted EPS	4.2	5.6	(25.8)	1.3	224.5	5.5	12.9	20.3
P/E (x)							14.6	9.8
As % of net revenues								
Operating expenses	81.3	80.6		78.9		80.4	79.5	78.4
Staff expenses	5.4	5.9		8.8		6.6	6.8	6.7
Other expenses	3.7	4.5		3.8		3.8	3.8	3.8
EBITDA	9.6	9.0		8.5		9.2	9.9	11.2
Net profit	5.2	6.9		3.0		4.5	4.7	5.8

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 10.5 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.

Additional Data

Management

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

Holdings – Top 10*

	% Holding		% Holding
C. Robeco MF	3.25	Dimensional Fd.	1.06
HDFC AMC	3.12	Tata AMC	0.83
IDFC AMC	2.94	GIC AMC	0.60
C. Robeco AMC	2.86	JP Morgan	0.51
Sundaram AMC	1.07	LIC Nomura MF	0.42

*Latest public data

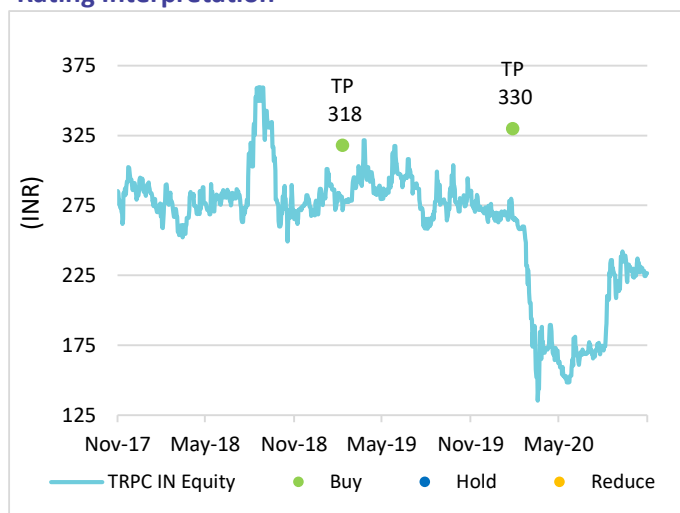
Recent Company Research

Date	Title	Price	Reco
13-Aug-20	Resilient amidst challenges; <i>Result Update</i>	210	Buy
04-Jun-20	Near-term pain; valuation favourable; <i>Result Update</i>	165	Buy
31-Jan-20	Soft performance; <i>Result Update</i>	271	Buy

Recent Sector Research

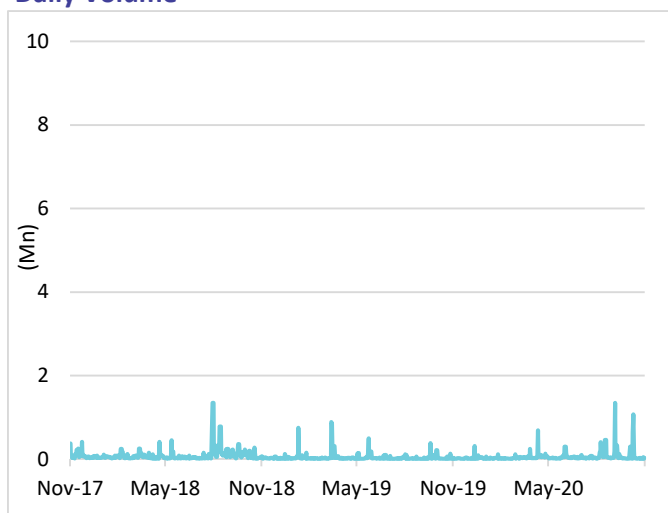
Date	Name of Co./Sector	Title
03-Nov-20	TCI Express	Strong recovery, impressive margin; <i>Result Update</i>
02-Nov-20	Mahindra Logistics	A comeback quarter; <i>Result Update</i>
29-Oct-20	Blue Dart Express	Gaining from the crisis; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	161	63	14	238
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	175	58	13	246

* stocks under review

Rating Rationale

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

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