

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	629
12 month price target (INR)	758
Market cap (INR bn/USD bn)	49/0.6
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

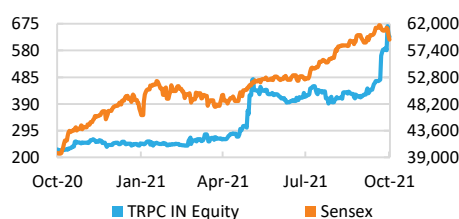
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth		●	
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	28,024	33,410	37,366	41,598
EBITDA	2,612	4,131	4,817	5,338
Adjusted profit	1,586	2,870	3,375	3,868
Diluted EPS (INR)	20.1	36.4	42.8	49.0
EPS growth (%)	1.5	80.9	17.6	14.6
RoAE (%)	13.7	22.6	22.5	21.6
P/E (x)	31.3	17.3	14.7	12.8
EV/EBITDA (x)	19.4	12.4	10.2	8.7
Dividend yield (%)	0.4	0.6	0.7	0.8

PRICE PERFORMANCE



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Financial model



Podcast



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Video

Entering a new orbit

Transport Corporation of India (TCI) posted record-high revenue (up 20% YoY), margin improvement across segments and earnings growth of 113% YoY, all beating our estimates. Management continues to be upbeat on demand, and guided for a steady uptick in business over coming quarters.

We are bullish on TCI; its improving business mix should lift margins and returns profile over the next three–four years, which can drive a re-rating. Moreover, even after a strong rally, TCI is trading at 14x one-year PE, providing reasonable valuation comfort. Factoring in the strong Q2FY22, we are raising FY22/23E EPS by 40%/32%. Retain 'BUY' with a revised TP of INR758 (from INR530), implying 18x PE.

Record performance; profitability entering new zones

TCI posted a remarkably strong Q2FY22 performance with record-high revenue (up 20% YoY/21% QoQ) and adjusted earnings up 113% YoY, beating our estimates. EBITDA margin expanded across segments and came in at 13.4% (up 380bps YoY). The freight division's revenue shot up 22% YoY while margin came in at 4.4% (4.1% in Q2FY21). Supply chain revenue increased 9% YoY. Due to high dependence on the auto sector (~80%), this segment should grow slower than other segments. The Seaways division's Q2FY22 revenue whirled up 47% YoY with margin expanding 1,600bps YoY. Seaways is the largest contributor to group EBITDA.

Business mix change to continue driving re-rating

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 a 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 15%-plus CAGR over the next five–seven years. TCI also plans to add capacity in its Seaways division (in Q4FY22), which should aid margin improvement and RoCE. Overall, TCI's focus on establishing multi-modal capabilities will reflect in its growth over the next four–five years.

Outlook and valuation: Retain 'BUY'

Factoring in a strong Q2FY22 performance and better demand outlook, we are raising FY22/23E EPS by 40%/32%. We retain 'BUY' with a revised SoTP-based target price of INR758 (up from INR530, implying an unchanged one-year forward PE of 18x). The stock at 14x one-year forward PE provides ample margin of safety.

Financials

Year to March	Q2FY22	Q2FY21	% Change	Q1FY22	% Change
Net Revenue	7,365	6,122	20.3	6,108	20.6
EBITDA	988	590	67.5	711	39.1
Adjusted Profit	684	320	113.6	484	41.2
Diluted EPS (INR)	8.9	4.2	113.6	6.3	41.2

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	28,024	33,410	37,366	41,598
Cost of Goods Sold	22,972	26,469	29,434	32,800
Employee costs	1,455	1,636	1,812	2,012
Other expenses	984	1,175	1,303	1,449
EBITDA	2,612	4,131	4,817	5,338
Depreciation	928	1,056	1,128	1,220
Less: Interest expense	267	253	297	287
Add: Other income	255	372	389	520
Profit before tax	1,672	3,194	3,782	4,351
Prov for tax	238	584	692	798
Less: Other adjustment	71	260	286	315
Reported profit	1,504	2,870	3,375	3,868
Less: Excp.item (net)	82	0	0	0
Adjusted profit	1,586	2,870	3,375	3,868
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	20	36	43	49
DPS (INR)	2.3	3.9	4.6	5.3
Tax rate (%)	14.3	18.3	18.3	18.3

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
EBITDA margin (%)	9.3	12.4	12.9	12.8
PBT growth (% YoY)	16.2	91.0	18.4	0
Net profit margin (%)	5.7	8.6	9.0	9.3
Revenue growth (% YoY)	3.1	19.2	11.8	11.3
EBITDA growth (% YoY)	8.6	58.1	16.6	10.8
Asset turnover (X)	1.9	2.1	2.0	0
Adj. profit growth (%)	3.6	80.9	17.6	14.6
EBIT margin (%)	6.0	9.2	9.9	9.9

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(4.0)	7.0	7.0	0
Repo rate (%)	3.0	4.0	4.0	0
USD/INR (average)	75.0	73.0	73.0	0
Freight margin (%)	4.1	4.4	4.4	4.4
SCM margin (%)	10.7	10.6	11.0	11.0
Real. per DWT (INR)	1,07,635	90,000	90,000	0
Freight div. (% YoY)	(7.8)	17.6	8.2	0
SCM growth(% YoY)	1.1	13.5	15.0	0
Seaways (% YoY)	7.2	39.4	12.5	0

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	31.3	17.3	14.7	12.8
Price/BV (x)	4.2	3.6	3.0	2.6
EV/EBITDA (x)	19.4	12.4	10.2	8.7
Dividend yield (%)	0.4	0.6	0.7	0.8

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	154	154	154	154
Reserves	11,543	13,534	16,188	19,242
Shareholders funds	11,697	13,688	16,342	19,396
Minority interest	86	47	47	47
Borrowings	2,555	3,300	3,069	3,259
Trade payables	759	705	788	876
Other liab & prov	2,272	1,638	1,638	1,638
Total liabilities	17,388	19,397	21,903	25,236
Net block	8,015	8,955	8,976	8,901
Intangible assets	31	6	6	6
Capital WIP	52	52	52	52
Total fixed assets	8,099	9,014	9,034	8,959
Non current inv	1,500	1,589	1,589	1,589
Cash/cash equivalent	395	770	2,567	5,237
Sundry debtors	5,110	5,731	6,414	7,147
Loans & advances	124	226	226	226
Other assets	1,608	1,530	1,535	1,540
Total assets	17,388	19,397	21,903	25,236

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	1,504	2,870	3,375	3,868
Add: Depreciation	928	1,056	1,128	1,220
Interest (net of tax)	179	170	199	192
Others	255	(548)	(577)	(740)
Changes in WC	181	(1,012)	(605)	(650)
Operating cash flow	3,047	2,535	3,519	3,890
Less: Capex	(1,241)	(2,177)	(1,149)	(1,144)
Free cash flow	1,807	358	2,371	2,746

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	13.7	22.6	22.5	21.6
RoCE (%)	13.7	22.0	22.4	22.0
Receivable days	65	59	59	59
Payable days	9	8	7	7
cash conversion cycle	57	52	52	53
Working cap (% sales)	14.6	16.2	16.1	16.0
Gross debt/equity (x)	0.2	0.2	0.2	0.2
Net debt/equity (x)	0.2	0.2	0	(0.1)
Interest coverage (x)	6.3	12.2	12.4	14.4

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	1.5	80.9	17.6	14.6
RoE (%)	13.7	22.6	22.5	21.6
EBITDA growth (%)	8.6	58.1	16.6	10.8
Payout ratio (%)	11.9	10.7	10.7	10.8

TRANSPORT CORPORATION

Exhibit 1: Quarterly snapshot

INR mn	Q2FY22	Q2FY21	YoY %	Q1FY22	QoQ %	FY21	FY22E	FY23E
Revenues	7,365	6,122	20.3	6,108	20.6	24,520	29,381	32,732
Operating expenses	5,730	4,976	15.2	4,835	18.5	19,738	22,749	25,157
Employee Benefit Expenses	404	329	22.7	391	3.2	1,402	1,575	1,742
Others	243	227	7.1	171	42.0	902	1,080	1,194
Total expenditure	6,377	5,532	15.3	5,397	18.2	22,042	25,404	28,092
EBITDA	988	590	67.5	711	39.1	2,479	3,977	4,640
Depreciation	242	198	22.2	234	3.6	881	1,008	1,081
EBIT	747	392	90.3	477	56.4	1,598	2,969	3,559
Interest	28	64	(56.5)	41	(32.1)	248	224	265
Other income	56	71	(21.2)	107	(47.8)	352	372	389
Add: Exceptional items	0	0	N/A	0	N/A	140	0	0
Profit Before Tax	775	399	94.0	543	42.6	1,562	3,117	3,684
Less: Provision for Tax	91	79	14.9	59	53.4	214	561	663
Reported Profit	684	320	113.6	484	41.2	1,348	2,556	3,021
Adjusted Profit	684	320	113.6	484	41.2	1,487	2,556	3,021
Adjusted Diluted EPS	8.9	4.2	113.6	6.3	41.2	19.4	33.3	39.3
P/E (x)							17.3	14.7
As % of net revenues								
Operating expenses	77.8	81.3		79.2		80.5	77.4	76.9
Staff expenses	5.5	5.4		6.4		5.7	5.4	5.3
Other expenses	3.3	3.7		2.8		3.7	3.7	3.6
EBITDA	13.4	9.6		11.6		10.1	13.5	14.2
Net profit	9.3	5.2		7.9		6.1	8.7	9.2

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 12 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.

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.

Any downfall in trucking freight rates, particularly due to aggressive pricing by PE backed transporters can impact the profitability of TCI adversely.

Additional Data

Management

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

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	7.61	Dimensional Fun	0.65
Sundaram AMC	1.03	JP Morgan	0.51
IDFC AMC	0.94	Principal Group	0.27
LIC AMC	0.93	Aviva Life Insu	0.05
Tata AMC	0.82	Acadian AMC	0.02

*Latest public data

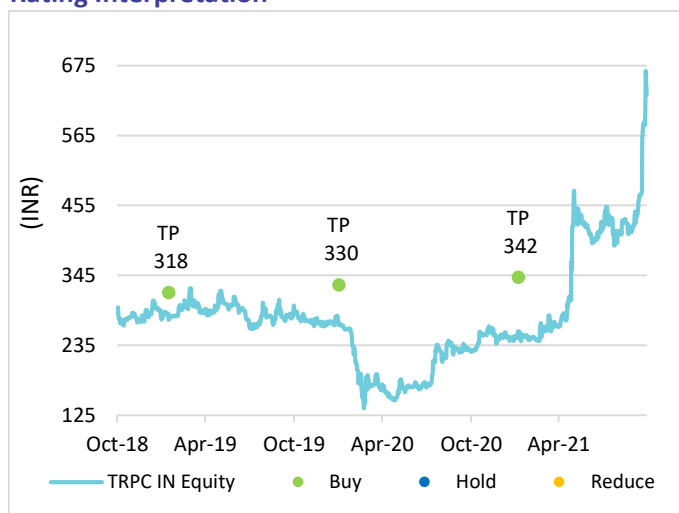
Recent Company Research

Date	Title	Price	Reco
04-Aug-21	Holding up in rough environment; <i>Result Update</i>	446.25	Buy
26-May-21	Munching miles; <i>Result Update</i>	366.6	Buy
08-Feb-21	Business mix change to drive rerating; <i>Company Update</i>	245.3	Buy

Recent Sector Research

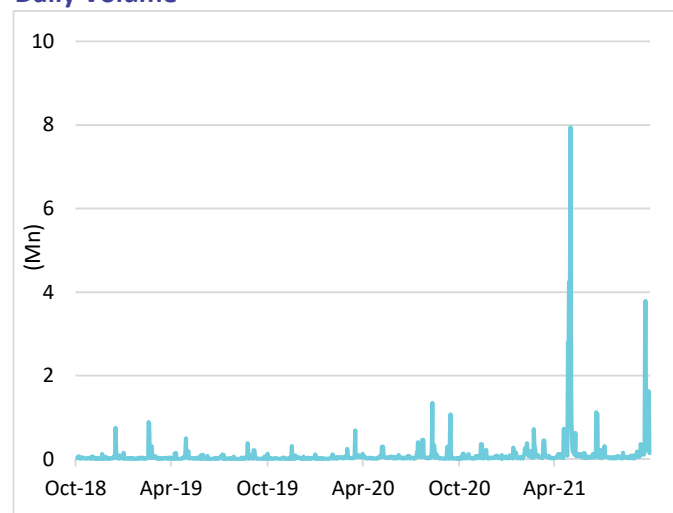
Date	Name of Co./Sector	Title
28-Oct-21	Mahindra Logistics	At an inflection point; <i>Result Update</i>
22-Oct-21	Container Corporation	DFC and divestment – Key triggers; <i>Result Update</i>
22-Oct-21	TCL Express	Riding recovery; valuation rich ; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	56	19	255
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	228	42	3	273

*1 stocks under review

Rating Rationale

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

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