

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	730
12 month price target (INR)	875
Market cap (INR bn/USD bn)	55/0.7
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

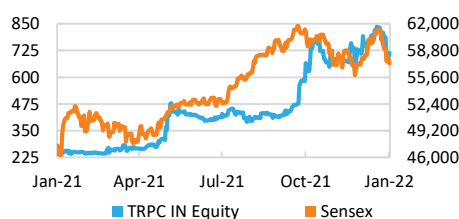
	Above	In line	Below
Profit	•		
Margins	•		
Revenue Growth	•		
Overall	•		

FINANCIALS

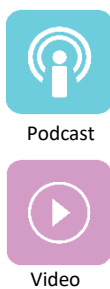
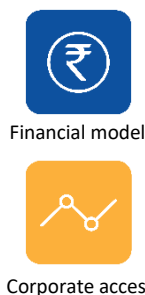
(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	28,024	32,627	37,251	42,265
EBITDA	2,612	3,963	4,810	5,390
Adjusted profit	1,586	2,982	3,622	4,210
Diluted EPS (INR)	20.1	37.8	45.9	53.4
EPS growth (%)	1.5	88.0	21.5	16.2
RoAE (%)	13.7	23.4	23.8	23.0
P/E (x)	36.3	19.3	15.9	13.7
EV/EBITDA (x)	19.4	12.9	10.2	8.6
Dividend yield (%)	0.3	0.6	0.7	0.8

PRICE PERFORMANCE



Explore:



In a new zone

Transport Corporation of India (TCI) posted a record performance for Q3FY22, robust on all parameters. Seaways division remained the key contributor to earnings, which was further backed by an improving performance by the freight segment. Management remains upbeat on demand and expects SCM to pick up in the coming quarters.

We are bullish on TCI; it's improving business mix, which along with a diversified business portfolio should attain sustainable growth over the next three-four years. Despite a strong rally, TCI still trades at 16x one year PE, providing reasonable valuation comfort. We raise our FY22/FY23E earnings by 7%/9%. Retain 'BUY' with a revised TP of INR875 (from INR758), implying 19x PE.

Sets a record, once again

TCI posted a robust Q3FY22 performance, which was slightly ahead of our estimates. Revenue grew 6% YoY and 3% QoQ basis, whereas we expected a flat top-line sequentially. The performance was broad based, however the march was led by yet another outperformance from the seaways division. EBITDA margins expanded ~350 bps YoY and ~65 bps QoQ, led by better margins in the freight and seaways segments. Going ahead, we expect a potential trim in seaways business to get negated by a better SCM performance.

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 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 15% plus CAGR over the next five-seven years. TCI also plans to add capacity in its seaways division (now pushed to FY23), 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'

Taking cognisance from the recent performance, we raise our FY22/FY23E earnings by 7%/9%. We retain our 'BUY' rating with a revised SoTP-based target price of INR875 (up from 758 earlier, implying a one year forward PE of 19x). The stock at 16x one year forward PE provides ample margin of safety.

Financials

Year to March	Q3FY22	Q3FY21	% Change	Q2FY22	% Change
Net Revenue	7,593	7,152	6.2	7,365	3.1
EBITDA	1,069	754	41.7	988	8.1
Adjusted Profit	776	482	60.8	684	13.5
Diluted EPS (INR)	10.1	6.3	60.8	8.9	13.5

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	28,024	32,627	37,251	42,265
Cost of Goods Sold	22,972	25,891	29,306	33,316
Employee costs	1,455	1,617	1,827	2,074
Other expenses	984	1,156	1,307	1,485
EBITDA	2,612	3,963	4,810	5,390
Depreciation	928	1,008	1,128	1,220
Less: Interest expense	267	144	297	287
Add: Other income	255	274	400	540
Profit before tax	1,672	3,085	3,786	4,423
Prov for tax	238	363	450	527
Less: Other adjustment	71	260	286	315
Reported profit	1,504	2,982	3,622	4,210
Less: Excp.item (net)	82	0	0	0
Adjusted profit	1,586	2,982	3,622	4,210
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	20	38	46	53
DPS (INR)	2.3	4.2	5.0	5.8
Tax rate (%)	14.3	11.8	11.9	11.9

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
EBITDA margin (%)	9.3	12.1	12.9	12.8
PBT growth (% YoY)	16.2	84.5	22.7	16.8
Net profit margin (%)	5.7	9.1	9.7	10.0
Revenue growth (% YoY)	3.1	16.4	14.2	13.5
EBITDA growth (% YoY)	8.6	51.7	21.4	12.0
Asset turnover (X)	1.9	2.0	2.0	1.9
Adj. profit growth (%)	3.6	88.0	21.5	16.2
EBIT margin (%)	6.0	9.1	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	4.0	4.4	4.4
SCM margin (%)	10.7	10.0	11.0	11.0
Real. per DWT (INR)	1,07,635	90,000	90,000	0
Freight div. (% YoY)	(7.8)	17.2	11.7	0
SCM growth(% YoY)	1.1	10.1	18.0	0
Seaways (% YoY)	7.2	39.4	12.5	0

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	36.3	19.3	15.9	13.7
Price/BV (x)	4.9	4.2	3.5	2.9
EV/EBITDA (x)	19.4	12.9	10.2	8.6
Dividend yield (%)	0.3	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	13,622	16,486	19,831
Shareholders funds	11,697	13,777	16,640	19,985
Minority interest	86	47	47	47
Borrowings	2,555	3,300	3,069	3,259
Trade payables	759	691	789	894
Other liab & prov	2,272	1,638	1,638	1,638
Total liabilities	17,388	19,471	22,202	25,843
Net block	8,015	9,005	9,026	8,950
Intangible assets	31	6	6	6
Capital WIP	52	52	52	52
Total fixed assets	8,099	9,063	9,084	9,009
Non current inv	1,500	1,589	1,589	1,589
Cash/cash equivalent	395	941	2,852	5,702
Sundry debtors	5,110	5,584	6,377	7,238
Loans & advances	124	226	226	226
Other assets	1,608	1,530	1,536	1,542
Total assets	17,388	19,471	22,202	25,843

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	1,504	2,982	3,622	4,210
Add: Depreciation	928	1,008	1,128	1,220
Interest (net of tax)	179	96	199	192
Others	255	(546)	(588)	(760)
Changes in WC	181	(879)	(700)	(761)
Operating cash flow	3,047	2,661	3,660	4,101
Less: Capex	(1,241)	(2,179)	(1,149)	(1,144)
Free cash flow	1,807	482	2,511	2,957

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	13.7	23.4	23.8	23.0
RoCE (%)	13.7	20.5	22.1	21.9
Receivable days	65	60	59	59
Payable days	9	8	7	7
cash conversion cycle	57	52	52	52
Working cap (% sales)	14.6	16.2	16.0	15.9
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	20.5	12.4	14.5

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	1.5	88.0	21.5	16.2
RoE (%)	13.7	23.4	23.8	23.0
EBITDA growth (%)	8.6	51.7	21.4	12.0
Payout ratio (%)	11.9	10.9	10.9	10.9

TRANSPORT CORPORATION

Exhibit 1: Quartely Snapshot

INR mn	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %	FY21	FY22E	FY23E
Revenues	7,593	7,152	6.2	7,365	3.1	24,520	29,018	33,100
Operating expenses	5,839	5,760	1.4	5,730	1.9	19,738	22,560	25,476
Employee Benefit Expenses	422	359	17.3	404	4.4	1,402	1,562	1,764
Others	264	278	(5.1)	243	8.7	902	1,071	1,209
Total expenditure	6,525	6,398	2.0	6,377	2.3	22,042	25,192	28,448
EBITDA	1,069	754	41.7	988	8.1	2,479	3,825	4,652
Depreciation	241	220	9.4	242	(0.4)	881	961	1,081
EBIT	828	534	55.0	747	10.9	1,598	2,864	3,571
Interest	22	58	(63.1)	28	(22.4)	248	115	265
Other income	71	86	(17.6)	56	27.6	352	334	400
Add: Exceptional items	0	104	NA	0	N/A	140	0	0
Profit Before Tax	878	458	91.6	775	13.3	1,562	3,083	3,707
Less: Provision for Tax	102	58	76.9	91	11.6	214	362	426
Reported Profit	776	401	93.7	684	13.5	1,348	2,721	3,280
Adjusted Profit	776	401	93.7	684	13.5	1,487	2,721	3,280
Adjusted Diluted EPS	10.1	5.2	93.7	8.9	13.5	19.4	35.4	42.7
P/E (x)							19.3	15.9
As % of net revenues								
Operating expenses	76.9	80.5		77.8		80.5	77.7	77.0
Staff expenses	5.6	5.0		5.5		5.7	5.4	5.3
Other expenses	3.5	3.9		3.3		3.7	3.7	3.7
EBITDA	14.1	10.5		13.4		10.1	13.2	14.1
Net profit	10.2	5.6		9.3		6.1	9.4	9.9

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 i) it is focusing on changing its business mix by growing the high margin LTL business and growing fast in the 3PL segment; ii) 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 iii) 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	
IDFC AMC	7.60	Dimensional Fun	0.78
Sundaram AMC	1.06	JP Morgan	0.51
IDFC AMC	0.94	Principal Group	0.27
Tata AMC	0.94	American Centur	0.02
LIC MF	0.86	Acadian AMC	0.01

*Latest public data

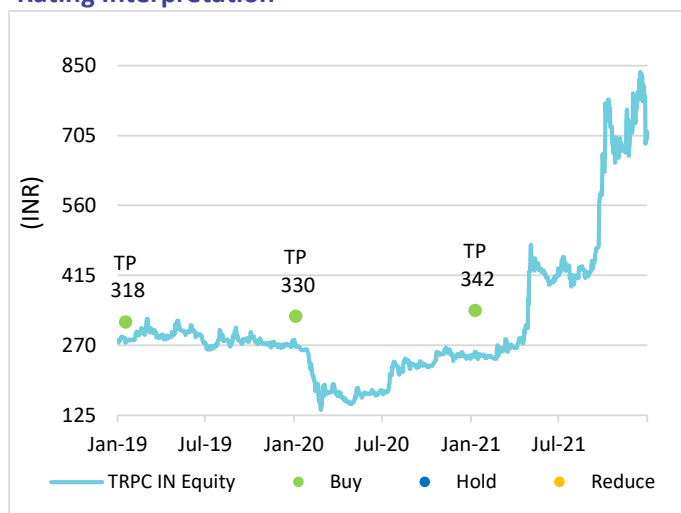
Recent Company Research

Date	Title	Price	Reco
29-Oct-21	Entering a new orbit; <i>Result Update</i>	629	Buy
04-Aug-21	Holding up in rough environment; <i>Result Update</i>	446	Buy
26-May-21	Munching miles; <i>Result Update</i>	367	Buy

Recent Sector Research

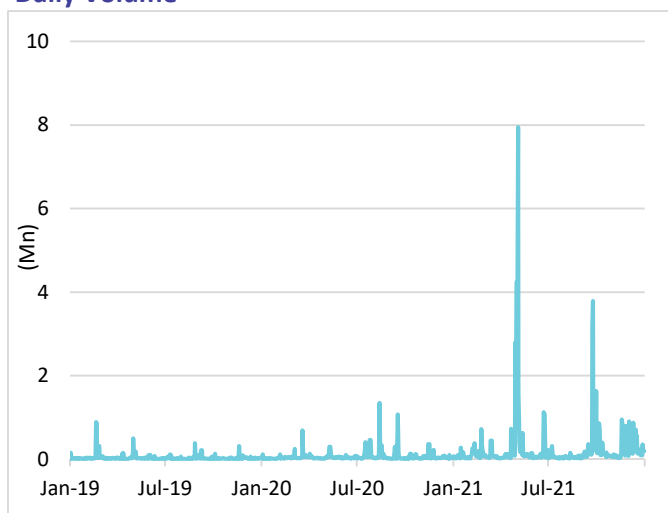
Date	Name of Co./Sector	Title
21-Jan-22	Container Corporation	DFC, divestment and more; <i>Result Update</i>
11-Jan-22	Logistics	Momentum continues to build up; <i>Sector Update</i>
29-Oct-21	Blue Dart Express	Blockbuster quarter; turnaround is real; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	191	55	17	264
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	236	41	5	282

*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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