

Transport Corporation of India Ltd

ADD

CMP Rs169

Target Rs178

Upside 5.3%

Robust business model; positives priced in

Transport Corporation of India (TCI) has developed exceptional business model with the robust multi-modal logistical capabilities via its presence across major modes of transportation. Though the supply/demand disruptions (owing to covid-19 pandemic) to impact its near-term performance, we believe TCI is a long-term play backed by a) diversified clientele base (with no reliance on anchor customer), b) improving share of high-margin Less than Truck Load (LTL) business in the road freight division, and c) rising contribution to overall pie from Seaways segment. Asset-heavy nature aids company with minimum dependence on external parties. At CMP, the stock is trading at 9.6x FY22E P/E. We believe most of the positives are captured at current levels. We initiate coverage on the stock with ADD rating for target of Rs.178 (10x FY22E P/E).

Integrated solution provider; clients benefit with multimodal capabilities

Backed by its vast experience of over six-decades in providing end-to-end integrated logistical solutions, TCI has built its presence across major modes of transportation via road freight, rail, and coastal shipping. The company has unique proposition with a) access to ~4,000 trucks, and ~900 branches in the road freight business, b) Joint Venture with Container Corporation of India for container rail connectivity, and c) 6 cargo ships with 63,622dwt aggregate capacity in seaways. Through these divisions, the company offers a) FTL, LTL, small packages, and over-dimensional cargo transportation in the freight business, b) 3PL services through supply chain division, and c) container cargo transportation via seaways. This diversified service also complements its multi-modal capabilities, benefits clients with competitive logistical solutions, and places company to capitalize on bulging opportunities.

Improving LTL's share aiding growth in road freight division

TCI has strong market position in the FTL business of road freight segment (contributes majorly to the segmental revenue) backed by its strong relationship with diversified loyal clientele among the top 500 Indian companies (total: 200,000+ customers base). However, over the past two years, its focus has shifted towards acquiring large number of SME customers and has been aiding company with a) improved growth prospects (LTL business growing faster than FTL segment), b) better margins (8-10% in LTL vis-à-vis 3-4% in FTL), and c) lower receivable days (smaller clientele gets lesser credit periods). Also, TCI has an added advantage in LTL business with well-established distribution hubs and a wide-spread footprint. In the near-term, TCI's road freight division is facing demand slowdown owing to covid-related disruptions, reduced consumption spending, and supply disruptions with manpower shortage. However, in the longer term, addition of SME clients with growing LTL share is likely to drive revenue growth and margin expansion.

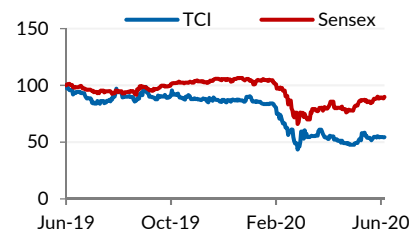
Early mover advantage in supply chain business; well-placed to capitalize

The 3PL logistics market in India is expected to grow in line with its historical trajectory largely backed by increasing urbanization and per capita income, and higher levels of outsourcing of logistics activities. In addition, organized 3PL service providers are better placed with increasing sophistication of clients, and growing trend towards centralized supply-chain decision making. This places TCI in a sweet spot backed by a) its early-mover advantage in 3PL industry, b) wide-service offerings with established execution track record, and c) strong clientele support (without any major anchor customer) from domestic industry (auto, retail and consumer products, chemicals and e-commerce). The company also manages ~12mn sq ft of warehousing space with support from a fleet of 4,000+ trucks across India. With clients' addition and an increasing trend towards outsourcing the logistical activities, we expect company's 3PL business to do well in the medium-to-longer term. However, in the near term, its business is likely to get impacted with covid-19 related disruptions and auto slowdown. We expect segmental revenue to decline in FY21E followed by sharp in FY22E.

Stock data (as on July 01, 2020)

Sensex:	35,414
52 Week h/l (Rs)	313 / 122
Market cap (Rs/USD mn)	12980 / 172
Outstanding Shares (mn)	77
6m Avg t/o (Rs mn):	8
Div yield (%):	1.2
Bloomberg code:	TRPC IN
NSE code:	TCI

Stock performance



	1M	3M	1Y
Absolute return	6.0%	-4.9%	-43.6%

Shareholding pattern (As of Mar'20 end)

Promoter	66.9%
FII+DII	11.8%
Others	21.3%

Financial Summary: Y/e 31 Mar

(Rs mn)	FY20	FY21E	FY22E
Revenues	27,178	24,961	28,889
yoy growth (%)	(1.3)	(8.2)	15.7
Operating profit	2,405	2,075	2,520
OPM (%)	8.9	8.3	8.7
Reported PAT	1,432	1,019	1,351
Adjusted PAT	1,531	1,019	1,351
yoy growth (%)	4.9	(33.4)	32.6
EPS (Rs)	19.9	13.3	17.6
P/E (x)	8.5	12.7	9.6
EV/EBITDA (x)	6.8	7.5	6.1
Debt/Equity (x)	0.4	0.3	0.2
RoE (%)	16.0	9.5	11.5

ALOK DEORA

Lead Analyst

alok.deora@ysil.in

+91 98205 13792



LOKESH KASHIKAR, Analyst

lokesh.kashikar@ysil.in | +91 90044 47175

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

Seaways segment performing well; likely to contribute ~15% to revenue by FY22E

Outlook of TCI's coastal shipping business improving (contributed to ~13% to overall topline) with gaining utilization of its owned fleet (six ships; have 63,622dwt aggregate capacity). The company mainly carries container cargo along the western coast between Kochi and Mundra, and bulk cargo on the eastern coast to Andaman and Nicobar Islands (three ships each operating on the western and eastern coasts). With healthy activity in India's coastal shipping and inland waterways, TCI is likely to be a prime beneficiary. Also, addition of ships (1 each in FY18 and FY19) and higher utilization of the existing fleet (utilization stands at 55-60% at present) enabling company towards strong growth prospects. Going forward, its plan to add more ships coupled with better utilization of existing ships to drive revenue growth.

Performance to remain tepid in FY21E; expects rebound in FY22E with 15.7% revenue growth

During FY17-19, TCI has reported robust 19.1% topline CAGR backed by healthy growth by its road freight and supply chain business. Also, its lower contributor seaways division has posted 48.1% revenue CAGR. However, the company's performance during FY20 stood tepid with 1.3% yoy decline in topline largely impacted by subdued show across its major divisions. We believe, its performance to remain muted in FY21E with demand slowdown owing to covid-related disruptions and supply interruptions due to shortage of manpower. Seaway business, however, likely to outperform other division and its share to total revenue is expected to increase to ~15% by FY22E. On overall basis, we expect the company to log 3.1% revenue CAGR over FY20-22E (-8.2%/+15.7% yoy growth during FY21E/FY22E respectively). Also, despite temporary blip in margin during FY21E (owing to higher operational cost and subdued revenue), operating margin likely to improve to 8.7% during FY22E with improving share of higher margin seaways business and rising share of LTL business in freight division.

Valuation and Outlook – Positives priced in

We believe, TCI's performance to bounce back over longer horizon (after temporary blip in FY21E) with robust cliental base, and end-to-end integrated logistical solutions. At the CMP, the stock is trading at a valuation of 9.6x FY22E P/E. We believe the positives are priced in and assign an ADD rating for target price of Rs.178 (10x FY22E P/E).

Risks and Concerns

- ✓ Prolonged impact of Covid-19 pandemic, with slowdown in key end-user industry verticals.
- ✓ Increase in competitive intensity from pan-India organized/unorganized players.

Exhibit 1: Major business vertical

Division	Services
Road Freight	provides integrated surface transport solutions such as FTL, LTL, Small packages and Consignments, Over dimensional Cargoes and Project Heavy Haul
Supply chain	provides logistics & supply chain solutions to diverse business needs. Its offering includes supply chain design and reengineering, logistics support to third party, warehousing management and other similar services
Seaways	has expertise in coastal shipping and container cargo movements and Transportation services

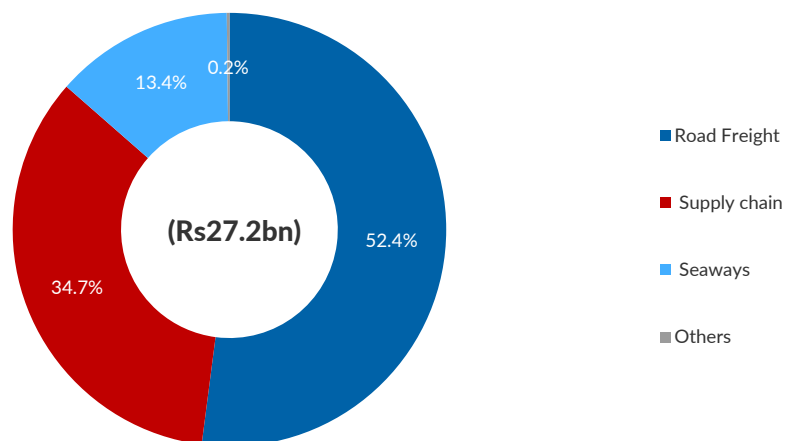
Source: Company, YES Sec – Research

Exhibit 2: TCI offers diverse industry solutions

Industry	Solutions
Automobile	Offers solutions for complex logistics requirements covering the entire supply chain from production to after-markets
Chemical	Logistics solution for all bulk liquid transport requirement of chemical industry includes movement of Hazardous and Non-hazardous chemicals
Omni-channel retail	logistics services to supply production process, and delivery of products to the distribution warehouse of industry players
Engineering	solutions for lightweight or heavy-duty consignments and ensure professional handling of goods
E-Commerce	provides fulfillment services and middle mile transportation
Pharma & Healthcare	convenient transportation, C&F and warehousing facility for Hi-tech equipment including MRI machines and CT Scanners
Textile	extend transportation, warehousing, consol and de-consol services

Source: Company, YES Sec – Research

Exhibit 3: Road freight and Supply chain business dominates revenue pie*



Source: Company, YES Sec – Research; * revenue during FY20

FINANCIALS

Exhibit 4: Balance sheet

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Equity capital	153.3	153.7	153.7	153.7
Reserves	8,766	10,085	10,981	12,186
Net worth	8,920	10,239	11,135	12,340
Other LT Liabilities	20	50	50	50
Minority interest	52	57	57	57
Borrowing	4,142	3,686	3,386	2,986
Deferred tax liab (net)	390	302	302	302
Total liabilities	13,524	14,334	14,929	15,735
Fixed assets	7,303	7,929	8,114	8,318
Intangible assets	5	5	5	5
Investments	1,168	1,354	1,354	1,354
Other Non-current Asset	741	472	437	499
Net working capital	4,151	4,316	4,265	4,916
Inventories	53	66	60	70
Sundry debtors	5,151	4,873	4,766	5,516
Other current assets	1,342	1,652	1,517	1,756
ST. Loans & advances	241	225	225	225
Cash	155	259	756	643
Sundry creditors	(674)	(639)	(587)	(679)
Other current liabilities	(1,897)	(1,759)	(1,616)	(1,870)
Provision	(65)	(102)	(102)	(102)
Total assets	13,524	14,334	14,929	15,735

Exhibit 5: Income statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenue	27,536	27,178	24,961	28,889
Operating profit	2,495	2,405	2,075	2,520
Depreciation & Amortization	(774)	(825)	(914)	(996)
PBIT	1,721	1,580	1,161	1,523
Interest expense	(374)	(343)	(311)	(280)
Other income	195	201	230	250
Exceptional items	(7)	(99)	-	-
Profit before tax	1,535	1,340	1,080	1,493
Taxes	(333)	(159)	(238)	(376)
Minorities	251	252	177	235
Reported profit	1,453	1,432	1,019	1,351
Adj. Net profit	1,460	1,531	1,019	1,351

Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Cash flow from operation				
Profit before tax	1,535	1,340	1,080	1,493
Depreciation	774	825	914	996
Tax paid	(333)	(159)	(238)	(376)
Working capital Δ	(568)	(165)	51	(652)
Operating cashflow	1,408	1,840	1,808	1,461
Cash flow from Investing Activities				
Capital expenditure	(1,261)	(1,450)	(1,100)	(1,200)
Change in other non curr assets	(251)	269	35	(62)
Free cash flow	(104)	660	743	199
Cash flow from Financing activities				
Equity raised	0.2	0.4	-	-
Investments	(124)	(185)	-	-
Debt financing/disposal	189	(456)	(300)	(400)
Dividends paid	(182)	(138)	(123)	(146)
Other items	235	224	177	235
Net Δ in cash	13	104	496	(112)

Exhibit 7: Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Tax burden (x)	0.9	1.1	0.9	0.9
Interest burden (x)	0.8	0.8	0.8	0.8
EBIT margin (x)	0.1	0.1	0.1	0.1
Asset turnover (x)	1.8	1.6	1.5	1.6
Financial leverage (x)	1.8	1.7	1.6	1.5
RoE (%)	17.6	16.0	9.5	11.5

Exhibit 8: Ratio analysis

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Growth matrix (%)				
Revenue growth	17.2	(1.3)	(8.2)	15.7
Op profit growth	15.3	(3.6)	(13.7)	21.4
EBIT growth	18.1	(7.0)	(21.9)	27.5
EPS growth	17.8	4.6	(33.4)	32.6
Profitability ratios (%)				
OPM	9.1	8.9	8.3	8.7
EBIT margin	7.0	6.6	5.6	6.1
Net profit margin	5.3	5.3	4.1	4.7
RoCE	15.0	12.8	9.5	11.6
RoNW	17.7	16.0	9.5	11.5
RoA	9.6	8.7	6.0	7.6
Per share ratios (Rs)				
EPS	19.0	19.9	13.3	17.6
Dividend per share	1.8	1.8	1.6	1.9
Cash EPS	29.1	29.4	25.2	30.5
Book value per share	116.4	133.2	144.9	160.6
Payout (%)				
Dividend payout	12.6	9.7	12.1	10.8
Tax payout	21.7	11.9	22.0	25.2
Liquidity ratios				
Debtor days	68.3	65.4	69.7	69.7
Inventory days	0.7	0.9	0.9	0.9
Creditor days	8.9	8.6	8.6	8.6
Leverage ratios (x)				
Interest coverage	5.1	5.2	4.5	6.3
Net debt / equity	0.4	0.3	0.2	0.2
Valuation ratios (x)				
P/E	8.9	8.5	12.7	9.6
P/BV	1.5	1.3	1.2	1.1
EV/EBITDA	6.8	6.8	7.5	6.1
Dividend Yield	1.1	1.1	0.9	1.1
MCAP/Sales (x)	0.5	0.5	0.5	0.4

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Alok Deora, Lokesh Kashikar

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: <https://yesinvest.in>

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208