

TRANSPORT CORPORATION OF INDIA

Resilient amidst challenges

India Equity Research | Logistics



In a challenging environment, Transport Corporation of India (TCI) reported decent Q1FY21 numbers with PAT of INR47mn (against our and Street's expectations of a loss). The moderate asset ownership model has helped the company achieve the best of both worlds--ensured truck supply as well as kept costs under check. Management has guided for FY21 utilisation at 80-90% of FY20 level; current run-rate of ~80% of pre-covid level is also encouraging. We are bullish on TCI as an improving business mix should lift its margin and returns profile over the next three-four years, which can potentially re-rate the stock. Moreover, the stock trades at 10x FY22E PE, which is attractive and implies limited downside. Retain 'BUY' with revised TP of INR250 (INR210 earlier) as we revise up FY21/22E EPS 21%/14% factoring the strong Q1FY21 performance and planned capacity addition in shipping.

Strong performance beats expectations

Q1FY21 sales were down 39% YoY and PAT came in at INR47mn – both better than Street's expectations and ours. Freight division's revenue (standalone) was down 47%, but better cost management helped it break even and record EBITDA margin of 2.5%. Supply chain division turned in a weak show, in line with expectations, with its revenue dipping ~56% YoY given heavy reliance on the auto sector. Seaways revenue fell only 12% YoY since shipping operations continued even during the lockdowns, and reported EBITDA margin of 19.7%. Notably, TCI's JV with Container Corporation, TCI Concor, reported 80% YoY growth in top line as rail took market share from road during lockdowns; however, most of this could be temporary, in our view.

Beyond the immediate near term

Our investment rationale for TCI is based on 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 13-15% CAGR over five-seven years. The company is also planning to add another ship to its fleet this year due to favourable demand and supply dynamics, which should aid in margin improvement.

Outlook and valuation: Retain 'BUY'

Factoring the better-than-expected Q1FY21 performance and increased capacity in shipping, we are revising up FY21/22E EPS 21%/14%. We retain 'BUY' with revised SOTP-based target price of INR250 (from INR210), implying FY22E PE of 11x.

Financials

(INR mn)

Year to March	Q1FY21	Q1FY20	% Chg	Q4FY20	% Chg	FY20	FY21E	FY22E
Net revenues	4,057	6,592	(38.5)	6,678	(39.2)	27,178	21,987	29,558
EBITDA	306	584	(47.6)	586	(47.7)	2,405	1,935	3,071
Adjusted Profit	47	344	(86.3)	362	(87.0)	1,432	996	1,706
Adjusted Diluted EPS	0.6	4.5	(86.4)	4.7	(87.0)	18.5	12.9	22.1
Diluted P/E (x)						11.4	16.5	9.6
ROAE (%)						10.3	6.7	10.7

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Value

MARKET DATA (R: TCIL.BO, B: TRPC IN)

CMP	: INR 210
Target Price	: INR 250
52-week range (INR)	: 313 / 121
Share in issue (mn)	: 77.0
M cap (INR bn/USD mn)	: 16 / 277
Avg. Daily Vol. BSE/NSE ('000)	: 29.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters *	66.9	66.9	66.8
MF's, FI's & BKs	10.2	10.1	9.9
FII's	1.7	1.8	1.8
Others	21.2	21.3	21.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	3.2	3.2	(0.1)
3 months	14.2	2.3	(11.9)
12 months	1.3	(32.9)	(34.2)

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Financial snapshot

(INR mn)

Year to March	Q1FY21	Q1FY20	% change	Q4FY20	% change	FY20	FY21E	FY22E
Net revenues	4,057	6,592	(38.5)	6,678	(39.2)	27,178	21,987	29,558
Gross profit	745	1,223	(39.1)	1,272	(41.5)	5,036	4,144	6,014
Other expenses	138	255	(46.1)	266	(48.3)	1,058	816	1,084
Operating expenses	3,313	5,369	(38.3)	5,406	(38.7)	22,143	17,843	23,543
EBITDA	306	584	(47.6)	586	(47.7)	2,405	1,935	3,071
Depreciation	206	199	3.4	208	(0.7)	825	863	895
EBIT	100	385	(74.0)	378	(73.5)	1,580	1,072	2,176
Other income	30	35	(13.6)	68	(55.1)	201	246	81
Add: Exceptional items	(1)	84	NA	57	NA	153	200	220
Profit before tax	56	417	(86.6)	419	(86.7)	1,591	1,172	2,128
Provision for taxes	9	72	(88.2)	57	(85.1)	159	176	421
Minority interest								
Associate profit share								
Profit- Discontinued Ops								
Reported net profit	47	344	(86.3)	362	(87.0)	1,432	996	1,706
Adjusted Profit	47	344	(86.3)	362	(87.0)	1,432	996	1,706
Diluted shares (mn)	78	77		78		77	77	77
Adjusted Diluted EPS	0.6	4.5	(86.4)	4.7	(87.0)	18.5	12.9	22.1
Diluted P/E (x)	-	-		-		11.4	16.5	9.6
EV/EBITDA (x)	-	-		-		8.3	10.0	6.3
ROAE (%)	-	-		-		10.3	6.7	10.7
As % of net revenues								
Employee cost	7.4	5.8		6.3		5.8	6.3	6.3
Other expenses	3.4	3.9		4.0		3.9	3.7	3.7
Operating expenses	81.6	81.5		80.9		81.5	81.2	79.7
EBITDA	7.5	8.9		8.8		8.9	8.8	10.4
Reported net profit	1.2	5.2		5.4		5.3	4.5	5.8

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 15-17% 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.

Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
TCI Freight	17	3	(25)	33
TCI Freight	4	4	4	4
Realisation per tonne per km (INR)	2	2	2	2
TCI Seaways	31	32	22	28
Realisation per DWT	109,321	85,000	85,000	85,000
TCI Seaways	39	4	(9)	55
TCI Corp and Others	52	52	40	45
Ship capacity (DWT)	63,380	91,880	91,880	103,365
Total tonnage for entire fleet for 1 year (mn)	4,936	5,289	4,202	5,289
TCI Supply Chain Solutions	11	(9)	(25)	34

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	27,537	27,178	21,987	29,558
Gross profit	5,021	5,036	4,144	6,014
Employee costs	1,402	1,572	1,393	1,859
Other Expenses	1,124	1,058	816	1,084
Operating expenses	22,515	22,143	17,843	23,543
Total operating expenses	25,041	24,773	20,052	26,487
EBITDA	2,495	2,405	1,935	3,071
Depreciation	774	825	863	895
EBIT	1,721	1,580	1,072	2,176
Less: Interest Expense	374	343	347	349
Add: Other income	195.1	201.2	246.03	80.59
Profit Before Tax	1,542	1,438	972	1,908
Less: Provision for Tax	333	159	176	421
Associate profit share	244	153	200	220
Reported Profit	1,453	1,432	996	1,706
Adjusted Profit	1,453	1,432	996	1,706
Shares o /s (mn)	77	77	77	77
Adjusted Basic EPS	18.8	18.6	12.9	22.1
Diluted shares o/s (mn)	77	77	77	77
Adjusted Diluted EPS	18.8	18.5	12.9	22.1
Adjusted Cash EPS	28.8	28.0	24.0	33.7
Dividend per share (DPS)	2.0	2.0	1.2	2.3
Dividend Payout Ratio(%)	10.6	10.7	9.6	10.4

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Gross margin	18.2	18.5	18.8	20.3
Operating expenses	4.1	3.9	3.7	3.7
Interest Expense	1.4	1.3	1.6	1.2
EBITDA margins	9.1	8.9	8.8	10.4
EBIT margins	6.2	5.8	4.9	7.4
Net Profit margins	5.3	5.3	4.5	5.8

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	17.2	(1.3)	(19.1)	34.4
EBITDA	15.3	(3.6)	(19.5)	58.7
Adjusted Profit	17.3	(1.4)	(30.5)	71.4
EPS	16.4	(1.4)	(30.5)	71.4

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	153	154	154	154	
Reserves & Surplus	8,766	10,085	10,793	12,067	
Shareholders' funds	8,920	10,239	10,946	12,221	
Minority Interest	52	57	47	47	
Long term borrowings	1,864	1,511	1,448	1,448	
Short term borrowings	2,278	2,210	2,538	2,588	
Total Borrowings	4,142	3,720	3,985	4,035	
Long Term Liabilities	20	19	19	19	
Def. Tax Liability (net)	390	302	299	299	
Sources of funds	13,523	14,337	15,297	16,621	
Gross Block	9,326	10,601	11,611	12,811	
Net Block	7,263	7,713	7,959	8,268	
Capital work in progress	40	216	216	216	
Intangible Assets	5	5	6	6	
Total net fixed assets	7,308	7,933	8,180	8,490	
Non current investments	1,168	1,354	1,619	1,619	
Cash and Equivalents	155	259	1,037	1,196	
Inventories	53	66	81	37	
Sundry Debtors	5,151	4,873	3,976	5,038	
Loans & Advances	241	225	233	233	
Other Current Assets	1,342	1,652	1,615	1,615	
Current Assets (ex cash)	6,787	6,816	5,905	6,924	
Trade payable	674	639	466	630	
Other Current Liab	1,962	1,857	1,445	1,445	
Total Current Liab	2,636	2,496	1,912	2,075	
Net Curr Assets-ex cash	4,150	4,320	3,993	4,848	
Uses of funds	13,523	14,337	15,297	16,621	
BVPS (INR)	115.7	132.8	141.9	158.5	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	1,453	1,432	996	1,706	
Add: Depreciation	774	825	863	895	
Interest (Net of Tax)	250	230	232	234	
Others	(1,367)	153	1,379	(1,896)	
Less: Changes in WC	(719)	117	1,232	(855)	
Operating cash flow	1,830	2,523	2,238	1,794	
Less: Capex	(1,259)	(1,321)	(1,255)	(1,204)	
Free Cash Flow	571	1,202	983	590	

Cash flow metrics					
Year to March	FY19	FY20	FY21E	FY22E	
Operating cash flow	1,830	2,523	2,238	1,794	
Financing cash flow	(241)	(1,044)	(410)	(511)	
Investing cash flow	(1,576)	(1,448)	(1,009)	(1,123)	
Net cash Flow	13	31	818	160	
Capex	(1,259)	(1,321)	(1,255)	(1,204)	
Dividend paid	(182)	(201)	(114)	(212)	

Profitability and efficiency ratios					
Year to March	FY19	FY20	FY21E	FY22E	
ROAE (%)	17.6	14.9	9.4	14.7	
ROACE (%)	15.5	13.1	9.1	14.4	
ROA	11.3	10.3	6.7	10.7	
Debtors Days	74	65	59	71	
Payable Days	10	9	7	9	
Cash Conversion Cycle	64	56	52	62	
Current Ratio	2.6	2.8	3.6	3.9	
Debt/EBITDA (x)	1.7	1.5	2.1	1.3	
Adjusted Debt/Equity	0.5	0.4	0.4	0.3	
Net Debt/Equity	0.4	0.3	0.3	0.2	
Interest Coverage Ratio	4.6	4.6	3.1	6.2	
LT debt /Cap empl. (%)	13.8	10.5	9.5	8.7	
Debt / Cap employed (%)	30.6	25.9	26.1	24.3	

Operating ratios					
Year to March	FY19	FY20	FY21E	FY22E	
Total Asset Turnover	2.2	2.0	1.5	1.9	
Fixed Asset Turnover	4.1	3.6	2.8	3.6	
Equity Turnover	3.3	2.8	2.1	2.5	

Valuation parameters					
Year to March	FY19	FY20	FY21E	FY22E	
Adj. Diluted EPS (INR)	18.8	18.5	12.9	22.1	
Y-o-Y growth (%)	16.4	(1.4)	(30.5)	71.4	
Adjusted Cash EPS (INR)	28.8	28.0	24.0	33.7	
Diluted P/E (x)	11.2	11.4	16.3	9.5	
P/B (x)	1.8	1.6	1.5	1.3	
EV / Sales (x)	0.7	0.7	0.9	0.7	
EV / EBITDA (x)	8.1	8.2	9.9	6.2	
Dividend Yield (%)	0.9	0.9	0.6	1.1	

Additional Data

Directors Data

Dharmpal Agarwal	Managing Director	Vineet Agarwal	Managing Director
Jasjit Sethi	CEO	Ishwar Sigar	CEO
Swaminatha Reddy Onteddu	Director	Vijay Sankar	Director
Susim Datta	Director	Satyanarayan Agarwal	Director
Karna Mehta	Director	Mahabir Sarawagi	Director
Ashish Bharat Ram	Director	Chander Agarwal	Director
Urmila Agarwal	Director		

Auditors - Brahmayya & Co.

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
IDFC Mutual Fund	3.7	Canara Robeco AMC	3.3
Sundaram Asset Management Co Ltd	1.1	Dimensional Fund Advisors LP	1.1
Tata Asset Management	0.8	JPMorgan Chase & Co	0.7
LIC Nomura Mutual Fund	0.4	Prinicpal Asset Management	0.3
Dimensional Fund Advisors	0.0	Bessemer Investment Management	0.0

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Logistics

Blue Dart Express Ltd, Container Corporation of India Ltd, Future Supply Chain, Mahindra Logistics Ltd, TCI Express Ltd, Transport Corporation of India, VRL Logistics Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
12-Aug-20	Logistics	Trains & Trucks: Edging towards normalcy; <i>Sector Update</i>		
10-Aug-20	Container Corporation	Risk-reward better, but still tricky; <i>Result Update</i>	386	Hold
03-Aug-20	Future Supply Chain Solutions	Covid-19 derails consolidation plan; <i>Result Update</i>	150	Drop Coverage (Buy)

Distribution of Ratings / Market Cap

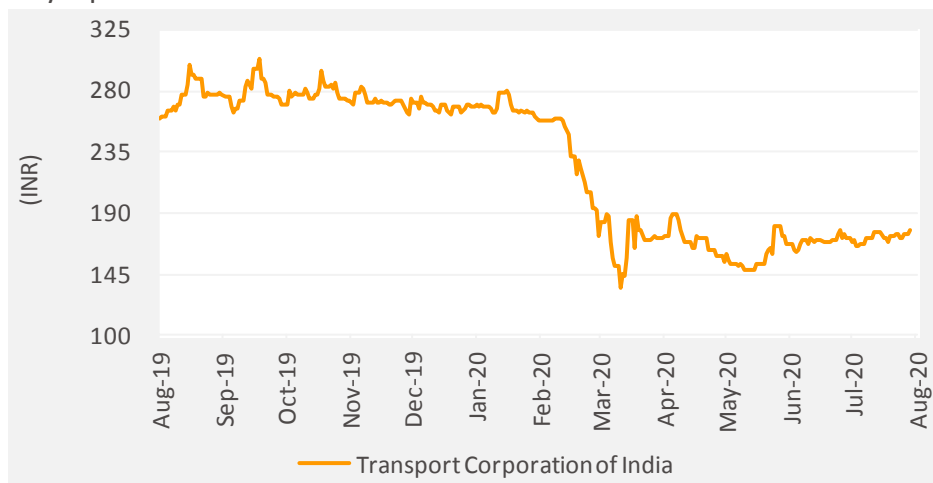
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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