

TRANSPORT CORPORATION OF INDIA

Rating: ◀▶ | Target price: ▲ | EPS: ▶▶

CMP
Rs. 760

Target Price
Rs. 845

Rating
BUY

Avendus[^]
SPARK

ONE YEAR OUTLOOK

Business & Earnings ▶▶

- Maintain our positive stance on TRPC as it is expected to benefit from the following: 1) steady automotive demand coupled with addition of new clientele across verticals, driving growth in Supply chain segment (SCS), 2) sustained demand for coastal shipping aided by favourable freight rates and new ship addition (estimated to contribute significantly from FY25), 3) traction in multimodal logistics, & 4) increasing contribution of less-than-truckload (LTL) in freight segment (margin-accretive).
- In 1QFY24, SCS segment revenue grew 21% YoY led by incremental business from existing clientele and new business wins. The segment also scaled up monthly auto-rakes operations to over 100 driving multimodal adoption. Expect healthy automotive demand (~75-80% of revenues), multimodal opportunities & thriving cold chain (especially pharma industry) to drive revenue & EBITDA CAGR of 12%/13% (FY23-25E).
- Seaways revenue declined 18% YoY due to impact of cyclone in west coast, lower freight rates and dry dock of a ship. EBITDA margins at 43.5% expanded by 400bps QoQ. We expect lower dry docking through FY24 to result in flat revenue growth for the year while margins sustain at 35%. We anticipate ship addition towards end of FY24. Penciling revenue/EBITDA growth at 13% & 7% CAGR respectively (FY23-25E).
- Freight division is likely to benefit from 1) higher LTL contribution (40% by FY25 from 36% in 1QFY24), 2) shift from unorganised sector, and 3) growth in multimodal logistics. Expect a revenue and EBITDA CAGR (FY23-25E) of 9%/13% respectively.

Valuation Multiples ▲

- Value TRPC based on SOTP (page 6) and arrive at TP of Rs.845. Increasing our multiple in SCS to 15x from 13x factoring back-ended benefits of multimodal adoption. Our multiple for freight/seaways segments remains at 6x and 10x EVEBITDA. Despite capex of ~Rs. 4.5bn through FY24-25, RoCEs likely to sustain at 17% through FY25.

FINANCIAL SUMMARY

	Net Sales (Rs mn)	EBITDA (%)	PAT (Rs mn)	EPS (Rs)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY22	29,046	13.4	2,674	34.6	22	15	22
FY23	34,287	11.8	3,035	39.2	19	14	21
FY24E	37,400	11.3	2,955	38.2	20	14	18
FY25E	42,379	11.5	3,353	43.3	18	12	17
FY26E	47,036	11.9	3,892	50.3	15	10	17

THREE YEAR OUTLOOK

Business & Earnings ▶▶

- Expect TRPC to benefit from 1) shift in volumes from the unorganised to organized sector, and 2) traction in multimodal logistics (TRPC is one of the few players with presence across value chain), which would drive revenue & EBITDA CAGR of 12%/14% respectively through FY23-27E.
- TRPC's established infrastructure, long-standing customer relationships and experienced management team (vintage of ~six decades) are expected to aid its position as a preferred 3PL partner. Furthermore, the company's presence across the multimodal logistics value chain (JV with Concor for rail transportation & fleet of ships for waterway transportation) allows it to provide efficient end-to-end logistics solutions. Robust demand for multimodal logistics is likely to drive coastal shipping volume growth, benefiting Seaways division. Expect addition of new ship every 15-18 months to cater to incremental demand. However, increasing competition may dilute realization and profitability.
- Expect freight segment to benefit from higher contribution from LTL services. Freight segment's share in overall revenues likely to fall from 47% in FY22 to ~42% by FY27E.

Valuation Multiples ▶▶

- Improving operating cashflows, combined with reducing debt, are expected to drive RoCE (12% in FY21 to ~18% in FY27E). Based on FY27E estimates, we see a potential upside of 53% (incl. dividends).

KEY ESTIMATES REVISION

	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Sales	38,070	37,400	-2%	43,170	42,379	-2%
EBITDA (%)	11.0	11.3	30 bps	11.4	11.5	10 bps
PAT	2,802	2,955	5%	3,350	3,353	0%
EPS	36.2	38.2	6%	43.3	43.3	0%
Implied Target P/E	Before Results: 18.5			After Results: 19.5		

All figures in Rs.Mn

OUTLOOK REVIEW 1QFY24 02 August 2023

Industry LOGISTICS

Key Stock Data

Bloomberg	TRPC IN
Shares o/s	78mn
Market Cap	Rs. 59bn (\$718mn)
52-wk High-Low	Rs. 845-555
3m ADV	Rs. 45mn (\$1mn)
F&O	No

Latest Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoters	69.0	69.0	69.0
Institutions	15.0	15.0	15.2
Public	16.0	16.0	15.8
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1m	3m	12m
TRPC	6.1	19.9	5.8
Sensex	2.7	8.3	14.3

RESEARCH ANALYSTS

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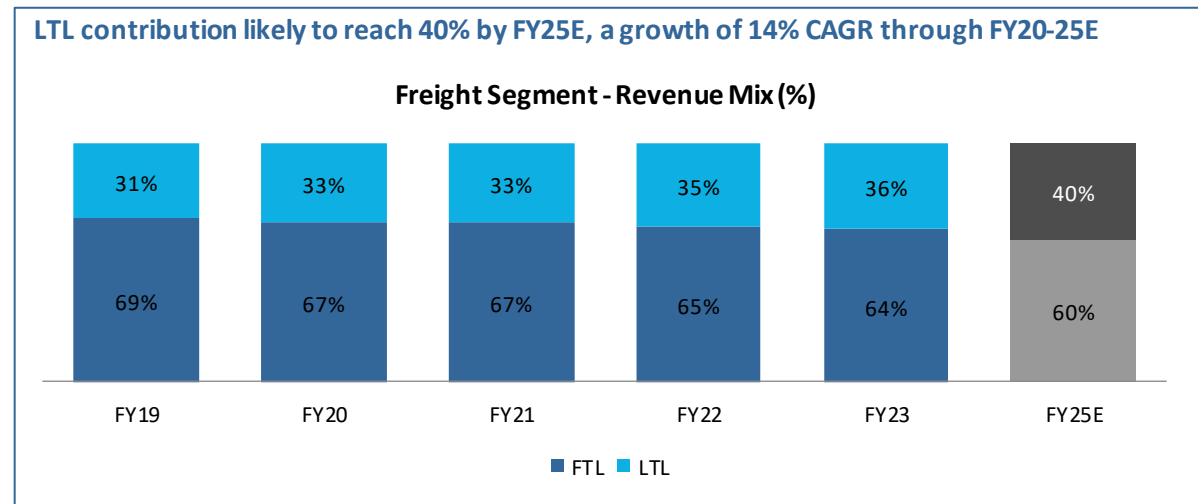
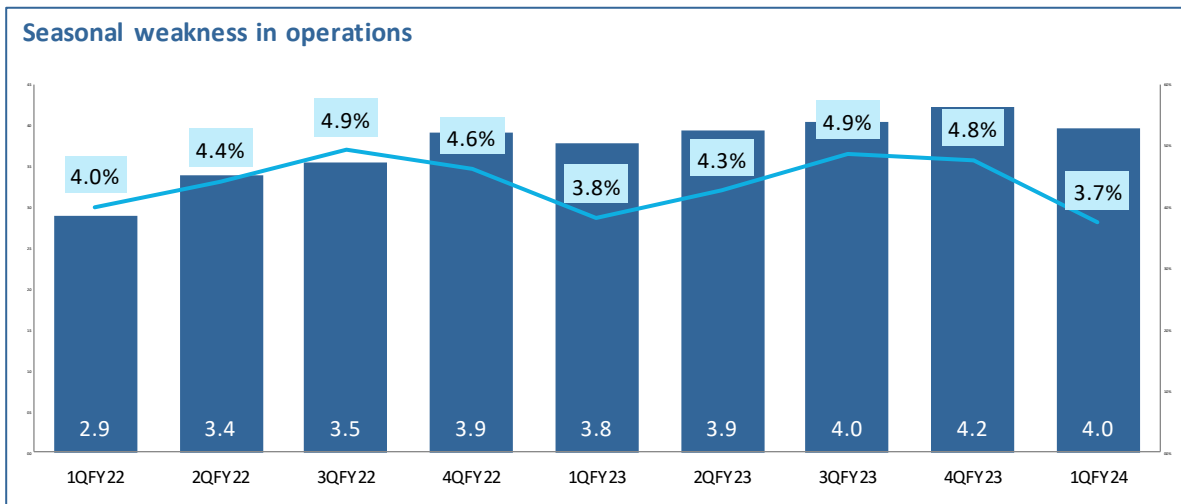
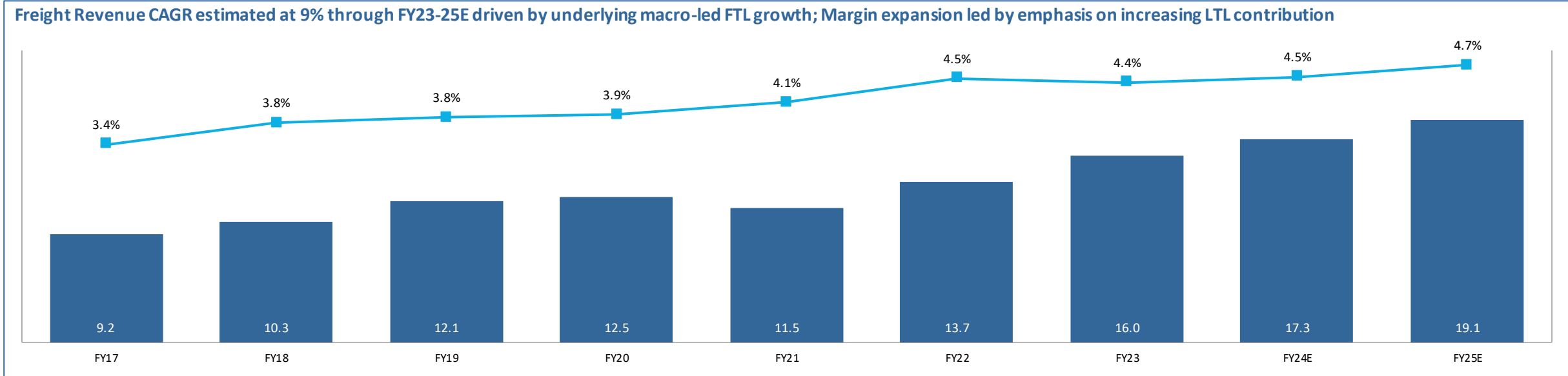
Quarterly Financial Statement

- TCI's freight segment reported revenues of Rs. 4bn, up 5% YoY but down 6% QoQ. The segment's EBIT margins at 3.4%, were down 110bps sequentially
- Supply Chain segment reported revenues at Rs. 3.5bn, up 21% YoY and 5% QoQ. EBIT margins at 6.2%, fell 30bps sequentially.
- Seaways segment revenues at Rs. 1.2bn, declined 18% YoY and 18% QoQ. EBIT margins at 29.2% expanded 150bps QoQ.
- Gross margin at 21%, was down 20 bps QoQ
- Employee costs up 18% YoY at Rs. 533mn while other expenses jumped 22% YoY to Rs. 309mn

Standalone Financial Results

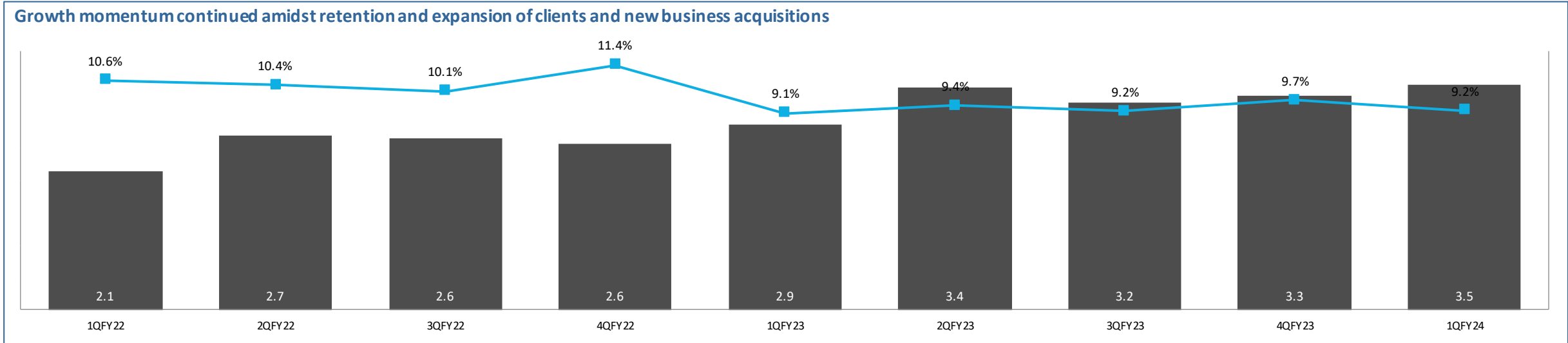
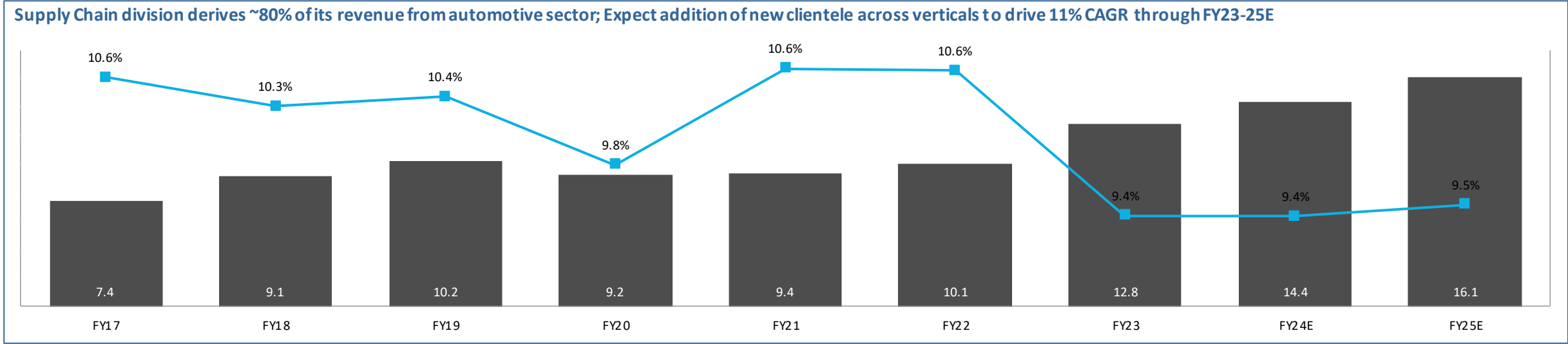
Rs. mn\Period	1QFY24	1QFY23	yoy Growth	4QFY23	qoq Growth	FY22	FY23	Yoy Growth
Revenue	8,598	8,072	6.5%	8,897	-3.4%	29,046	34,287	18.0%
Operating expense	6,789	6,374	6.5%	7,010	-3.2%	22,548	27,122	20.3%
Emp. cost	533	453	17.7%	493	8.2%	1,638	1,896	15.8%
Other expenses	309	254	21.7%	340	-9.1%	956	1,218	27.4%
Total Expenditure	7,631	7,080	7.8%	7,843	-2.7%	25,141	30,236	20.3%
EBITDA	967	992	-2.5%	1,054	-8.3%	3,904	4,050	3.7%
Margin%	11.2%	12.3%	-104 bps	11.9%	-60 bps	13.4%	11.8%	-163 bps
D&A	295	278	6.0%	299	-1.2%	1,076	1,168	8.5%
EBIT	672	713	-5.8%	756	-11.1%	2,829	2,883	1.9%
Other income	277	159	74.0%	114	142.1%	311	638	105.0%
Net Interest exp (inc)	21	19	12.3%	21	1.9%	109	82	-24.5%
PBT	928	854	8.7%	850	9.2%	3,031	3,439	13.5%
Tax provision	95	88	8.4%	98	-3.5%	357	394	10.3%
Tax rate%	10.2%	10.3%	-0.2%	11.6%	-134 bps	11.8%	11.4%	-32 bps
PAT (Reported)	833	766	8.7%	741	12.4%	2,674	3,045	13.5%
PAT (Adjusted)	833	766	8.7%	741	12.4%	2,674	3,045	13.5%
Adjusted PAT Margin %	9.7%	9.5%	20 bps	8.3%	136 bps	9.2%	8.9%	-36 bps
Shares Outstanding	77	77		77		77	77	
EPS (Reported)	10.9	10.0	8.7%	9.6	13.4%	34.6	39.3	13.5%
EPS (Adjusted)	10.9	10.0	8.7%	9.6	13.4%	34.6	39.3	13.5%

Freight segment to benefit from higher LTL contribution

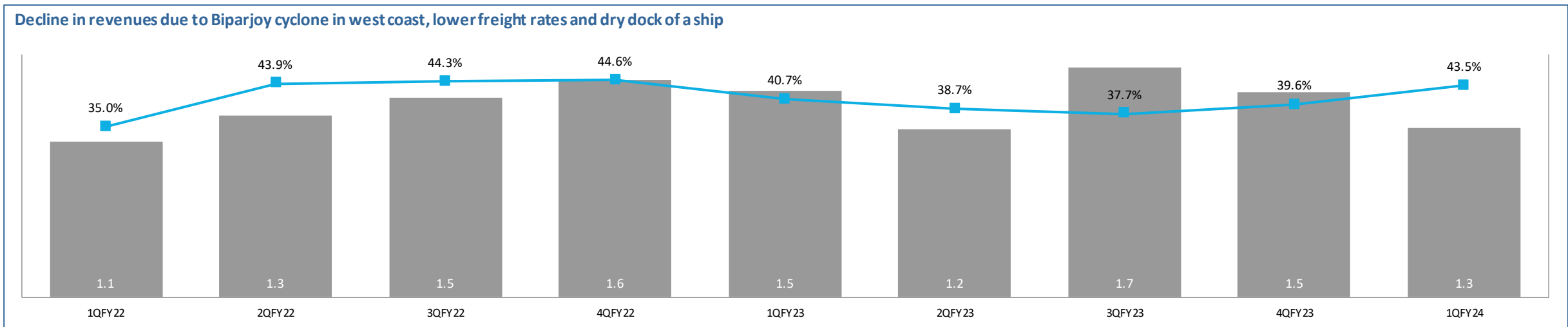
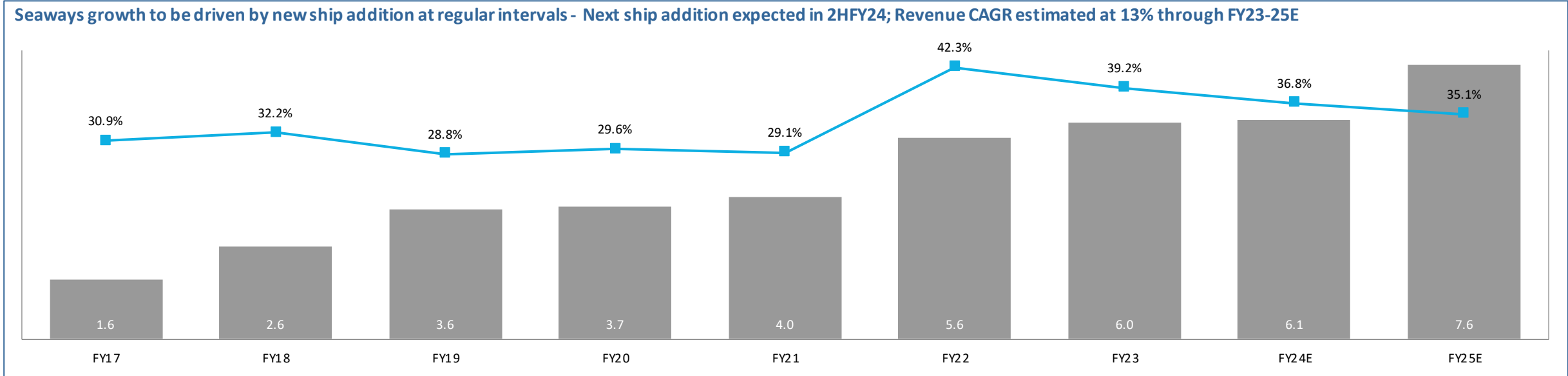


Source – Avendus Spark

SCS segment to benefit from sustained automotive demand and addition of new clientele across verticals



Healthy growth in Seaways segment to be driven by ship addition in 2HFY24E



SOTP

Arriving at Target price based on SOTP valuation			
SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		5,424	6x FY25e EV/EBITDA
TCI SCS		22,868	15x FY25e EV/EBITDA
TCI Seaways		26,681	10x FY25e EV/EBITDA
Others		63	2x FY25e EV/EBITDA
Net Cash(Net Debt)		1,816	
Value from TCI	735	56,852	87.1% of Total
Value from JV	107	8,282	12.7% of Total; Adjusted for hold co discount
No. Of Shares O/s (mn)		77	
Target Price	845	65,134	

Financial Summary

Standalone Financial Statements

Rs mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Profit & Loss										
Revenue	21,778	25,583	25,134	24,520	29,046	34,287	37,400	42,379	47,036	53,193
Gross profit	4,288	4,888	4,864	4,782	6,498	7,164	7,840	8,969	10,049	11,470
EBITDA	2,083	2,442	2,335	2,479	3,904	4,050	4,216	4,874	5,578	6,765
Depreciation	673	752	777	881	1,076	1,168	1,270	1,392	1,527	1,692
EBIT	1,410	1,690	1,558	1,598	2,829	2,883	2,946	3,482	4,051	5,073
Other Income	245	269	283	352	311	638	628	657	738	836
Interest expense	299	356	324	248	109	82	90	100	100	100
Exceptional items	40	0	99	140	0	10	0	0	0	0
PBT	1,316	1,603	1,419	1,562	3,031	3,429	3,484	4,039	4,689	5,809
Reported PAT (after minority interest)	1,037	1,276	1,264	1,348	2,674	3,035	2,955	3,353	3,892	4,822
Adj PAT	1,037	1,276	1,264	1,348	2,674	3,035	2,955	3,353	3,892	4,822
EPS (Rs.)	13.5	16.7	16.5	17.6	34.6	39.2	38.2	43.3	50.3	62.3
Balance Sheet										
Net Worth	6,769	8,370	9,500	10,804	13,131	15,677	18,012	20,667	23,862	27,986
Total debt	4,238	4,496	4,083	2,735	765	846	982	982	982	982
Other liabilities and provisions	535	1,290	1,263	1,375	1,491	1,697	1,826	2,031	2,224	2,478
Total Networth and liabilities	11,985	14,546	15,109	15,177	15,634	18,474	21,073	23,934	27,321	31,699
Gross Fixed assets	10,345	11,917	13,159	14,305	15,382	16,410	20,160	21,740	24,220	26,700
Net fixed assets	6,236	7,055	7,521	7,786	7,787	7,648	10,128	10,315	11,268	12,057
Capital work-in-progress	563	40	216	52	73	260	260	260	260	260
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	313	938	888	858	998	1,722	1,722	1,722	1,722	1,722
Cash and bank balances	130	122	178	308	581	1,693	1,163	2,797	4,260	6,566
Loans & advances and other assets	1,604	2,221	2,324	2,223	2,237	2,526	2,755	3,122	3,465	3,918
Net working capital	3,139	4,170	3,982	3,951	3,959	4,626	5,046	5,718	6,346	7,177
Total assets	11,985	14,546	15,109	15,177	15,634	18,474	21,073	23,934	27,321	31,699
Capital Employed	11,450	13,256	13,846	13,802	14,142	16,777	19,247	21,902	25,097	29,221
Invested Capital (CE - cash - CWIP)	10,757	13,094	13,452	13,442	13,489	14,824	17,825	18,845	20,577	22,395
Net debt	4,109	4,375	3,905	2,427	184	-847	-181	-1,816	-3,279	-5,585
Cash Flow										
Cash flows from Operations (Pre-tax)	2,119	2,060	2,748	2,976	3,993	3,591	4,233	4,599	5,437	6,471
Cash flows from Operations (post-tax)	1,768	1,729	2,353	3,043	3,556	3,415	3,704	3,912	4,640	5,484
Capex	1,582	1,046	1,289	1,129	678	1,451	3,750	1,580	2,480	2,480
Free cashflows	186	682	1,064	1,914	2,878	1,964	-46	2,332	2,160	3,004
Free cashflows (post interest costs)	-113	327	741	1,667	2,769	1,882	-136	2,232	2,060	2,904
Cash flows from Investing	-1,538	-1,481	-1,346	-959	-727	-1,854	-3,750	-1,580	-2,480	-2,480
Cash flows from Financing	316	-255	-964	-1,908	-2,456	-427	-484	-697	-697	-697
Total cash & liquid investments	130	122	178	308	581	1,693	1,163	2,797	4,260	6,566

Financial Summary

Standalone Financial Statements

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Key Variables										
Freight Segment Revenue	10,311.0	12,096.4	12,477.9	11,508.2	13,715.7	15,982.3	17,332.5	19,065.8	20,591.0	22,238.3
SCS Segment Revenue	9,125.5	10,189.0	9,249.5	9,376.4	10,051.9	12,803.7	14,367.9	16,092.1	17,701.3	19,471.4
Seaways Segment Revenue	2,564.2	3,593.4	3,677.4	3,952.8	5,577.8	5,989.5	6,088.2	7,610.3	9,132.3	11,872.0
Growth ratios (%)										
Revenue	20.7	17.5	-1.8	-2.4	18.5	18.0	9.1	13.3	11.0	13.1
EBITDA	32.3	17.2	-4.4	6.2	57.5	3.7	4.1	15.6	14.4	21.3
Adj PAT	47.6	23.0	-1.0	6.6	98.4	13.5	-2.6	13.5	16.1	23.9
Margin ratios (%)										
Gross	19.7	19.1	19.4	19.5	22.4	20.9	21.0	21.2	21.4	21.6
EBITDA	9.6	9.5	9.3	10.1	13.4	11.8	11.3	11.5	11.9	12.7
Adj PAT	4.8	5.0	5.0	5.5	9.2	8.9	7.9	7.9	8.3	9.1
Performance ratios										
Pre-tax OCF/EBITDA (%)	102	84	118	120	102	89	100	94	97	96
OCF/IC (%)	16	13	17	23	26	23	21	21	23	24
RoE (%)	16	17	14	13	22	21	18	17	17	19
RoCE (%)	12	13	12	12	20	20	17	17	17	18
RoCE (Pre-tax) (%)	15	16	14	14	22	23	20	20	20	22
Fixed asset turnover (x)	2.3	2.3	2.0	1.8	2.0	2.2	2.0	2.0	2.0	2.1
Total asset turnover (x)	1.9	1.9	1.7	1.6	1.9	2.0	1.9	1.9	1.8	1.8
Financial stability ratios										
Net Debt to Equity (x)	0.6	0.5	0.4	0.2	0.0	-0.1	-0.0	-0.1	-0.1	-0.2
Net Debt to EBITDA (x)	2.0	1.8	1.7	1.0	0.0	-0.2	-0.0	-0.4	-0.6	-0.8
Interest cover (x)	6	5	7	12	33	41	41	39	47	55
Cash conversion days	53	59	58	59	50	49	49	49	49	49
Total Working capital days	71	73	73	71	59	58	58	59	59	59
Valuation metrics										
Fully Diluted Shares (mn)	77	77	77	77	77	77	77	77	77	77
Market cap (Rs.mn)				58,798						
P/E (x)	57	46	47	44	22	19	20	18	15	12
P/Sales (x)	2.7	2.3	2.3	2.4	2.0	1.7	1.6	1.4	1.3	1.1
EV (Rs.mn) (ex-CWIP)	62,562	63,351	62,705	61,392	59,127	57,910	58,575	56,941	55,478	53,172
EV/ EBITDA (x)	30	26	27	25	15	14	14	12	10	8
EV/ OCF(x)	35	37	27	20	17	17	16	15	12	10
FCF Yield (%)	0.3	1.2	1.8	3.2	4.9	3.3	-0.1	4.0	3.7	5.1
Price to BV (x)	8.7	7.1	6.2	5.5	4.5	3.8	3.3	2.9	2.5	2.1
Dividend yield (%)	0.2	0.3	0.3	0.2	0.7	0.9	1.1	1.2	1.2	1.2
Dividend pay-out (%)	14	13	15	7	15	18	21	21	18	14

Crystal Ball Gazing

Over FY22-27E, revenue growth is likely to be driven by 1) shift from unorganised to organized sector, 2) logistics supply chain outsourcing to 3PL players, and 3) traction in multimodal logistics. EBITDA growth is expected to be driven by higher contribution from supply chain services(3PL) and increase in movement of freight by multimodal logistics.

Healthy Revenue and EBITDA growth

	FY11-FY14	FY14-FY22	FY22-FY27E
Revenues CAGR	5%	9%	13%
Gross Margin	19%	20%	21%
EBITDA CAGR	3%	18%	12%
EBITDA margin	7.6%	9.4%	12.1%
EPS CAGR	6%	27%	12%
Total Asset Turnover (x)	2.5	2.0	1.9
Total WC days	56	66	59
Pre-tax OCF/EBITDA (%)	87%	104%	96%
Post Tax OCF as a % of IC	15%	18%	23%
Debt/EBITDA	2.1	2.5	(0.3)

Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY22	FY22-FY27E
RoE (%)	15.2%	15.9%	19.1%
RoCE (%)	10.9%	12.6%	18.1%
RoIC (%)	15.6%	14.3%	20.4%
Average 1 yr fwd			
PE (x)			
EV/EBITDA (x)			
Peak 1 yr fwd			
PE (x)			
EV/EBITDA (x)			

Healthy operating performance to sustain multiple

SOTP	FY27 EBITDA (Rs.mn)	EV/EBITDA (x)	EV (Rs.mn)
TCI Freight	1,099	6.0	6,594
TCI SCS	1,845	13.0	23,981
TCI Seaways	4,162	10.0	41,622
Others	31	2.0	63
Net Debt (Rs.mn)			-5,585
Mkt Cap (Rs.mn)			77,845
Standalone TP			1,007
JV and Subs (Transystem, TCI Concor, Cold Chain)			111
Target Price			1,118

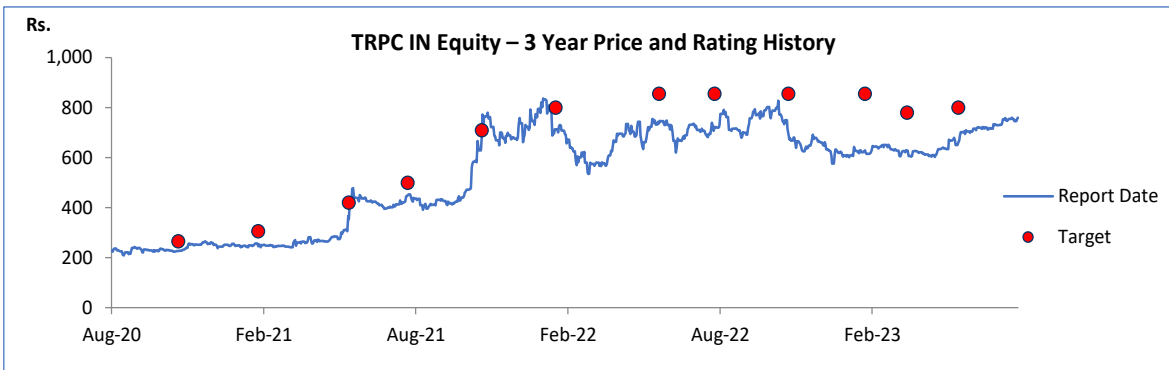
Entry = Rs. 760 @ 17.5x FY25E P/E

Cumulative Dividends of Rs.42/share

EPS CAGR of ~12%, implied exit multiple of 18x on FY27E P/E

Total Return of 53%

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

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01-Nov-21	630	710	BUY
05-Aug-21	446	500	BUY
27-May-21	367	420	Buy
08-Feb-21	257	305	Buy
05-Nov-20	226	265	Buy
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