

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	755
12 month price target (INR)	875
52 Week High/Low	845/555
Market cap (INR bn/USD bn)	59/0.7
Free float (%)	0.0
Avg. daily value traded (INR bn)	44.3

SHAREHOLDING PATTERN

	Mar-23	Dec-22	Sep-22
Promoter	68.99%	69.03%	69.03%
FII	2.77%	3.3%	3.32%
DII	12.24%	11.7%	11.81%
Pledge	0%	0%	0%

FINANCIALS

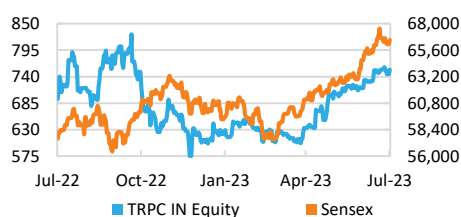
(INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Revenue	32,567	37,826	41,553	45,101
EBITDA	4,087	4,240	4,645	5,051
Adjusted profit	2,928	3,206	3,776	3,935
Diluted EPS (INR)	37.1	40.6	47.9	49.9
EPS growth (%)	84.6	9.5	17.8	4.2
RoAE (%)	22.5	20.5	20.5	18.5
P/E (x)	20.5	18.7	15.9	15.2
EV/EBITDA (x)	14.4	13.6	12.1	10.9
Dividend yield (%)	0.5	0.6	0.6	0.7

CHANGE IN ESTIMATES

Year to March	Revised estimates		% Revision	
	FY24E	FY25E	FY24E	FY25E
Revenue	41,533	45,101	(0)	(0)
EBITDA	4,645	5,051	(3.5)	(3.6)
Adjusted profit	3,776	3,935	(2.5)	(2.9)
Diluted EPS (INR)	47.9	49.9	(2.5)	(2.9)

PRICE PERFORMANCE



Modest quarter – seasonally weak

Transport Corporation (TCI) reported a modest Q1FY24, which is slightly below our estimates, primarily due to lower margins. Two key reasons: i) Dip in contribution (lost some voyages on account of cyclone) from the high-margin seaways segment; and ii) a QoQ drop in freight segment margin. Nonetheless, Q1 is generally weak; hence, better margins are likely going ahead. All in all, operational numbers are lower than estimates, but higher other income cushioned PAT.

TCI's transition towards a higher LTL mix along with strong margins in supply chain should largely offset any margin headwinds from seaways. Moreover, at a one-year forward PE of 16x, TCI lends valuation comfort. Maintain 'BUY' with an unchanged TP of INR875.

Weak margins offset by higher other income

Standalone revenue grew 6.5% YoY, but decreased 3% QoQ. EBITDA margin came in at 11.2% versus 12.3% in Q1FY23 and 11.9% in Q4FY23. The drop in margins is largely due to lower revenue in the high-margin seaway segment. Overall, PAT increased 12% QoQ led by higher other income.

Supply chain does well; freight and seaways disappoint

Freight rate in the seaways segment slid 30% because of lower fuel prices. This affected the overall revenue potential of the segment. More so, TCI lost a couple of voyages in Q1 on account of a cyclone. Nonetheless, with only one dry dock in FY24E, revenue should stay flat despite the drop in ocean freight rates. The freight segment (Trucking) had a modest quarter as Q1 is generally weak. As a result, margins too were muted thereof. Business mix slightly improved towards the LTL segment at 36% (FY25 target of 40%). On the supply chain side, business momentum sustained as TCI posted 21% YoY growth with a 6.2% EBIT margin. Demand momentum is strong led by a higher wallet share from existing clients and also acquisition of newer ones.

Business-mix change to provide re-rating impetus

Our investment rationale for TCI is based on the company's underlying business mix improving over the next three–four years. TCI 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—expected to log in a 15%-plus CAGR over the next five–seven years. TCI also plans to add capacity in its seaways division, which should aid margin expansion and RoCE over the medium term. However, a greater-than-expected drop in the seaways division's earnings could be a dampener for FY24E.

Financials

Year to March	Q1FY24	Q1FY23	% Change	Q4FY23	% Change
Net Revenue	8,598	8,072	6.5	8,897	(3.4)
EBITDA	967	992	(2.5)	1,054	(8.3)
Adjusted Profit	833	766	8.7	741	12.4
Diluted EPS (INR)	10.8	10.0	8.7	9.7	12.4

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Total operating income	32,567	37,826	41,553	45,101
Cost of Goods Sold	25,766	30,307	33,251	36,102
Employee costs	1,700	1,965	2,194	2,368
Other expenses	1,013	1,314	1,463	1,580
EBITDA	4,087	4,240	4,645	5,051
Depreciation	1,130	1,214	1,342	1,580
Less: Interest expense	128	98	97	98
Add: Other income	199	303	588	555
Profit before tax	3,028	3,231	3,794	3,929
Prov for tax	377	434	468	490
Less: Other adjustment	277	410	451	496
Reported profit	2,928	3,206	3,776	3,935
Less: Excp.item (net)	0	0	0	0
Adjusted profit	2,928	3,206	3,776	3,935
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	37	41	48	50
DPS (INR)	4.1	4.6	4.9	5.0
Tax rate (%)	12.4	13.4	12.3	12.5

Important Ratios (%)

Year to March	FY22A	FY23A	FY24E	FY25E
EBITDA margin (%)	12.6	11.2	11.2	11.2
PBT growth (% YoY)	81.1	6.7	17.4	3.6
Net profit margin (%)	9.0	8.5	9.1	8.7
Revenue growth (% YoY)	16.2	16.1	9.9	8.5
EBITDA growth (% YoY)	56.5	3.7	9.5	8.7
Asset turnover (X)	2.1	2.3	2.1	2.0
Adj. profit growth (%)	84.6	9.5	17.8	4.2
EBIT margin (%)	9.1	8.0	7.9	7.7

Assumptions (%)

Year to March	FY22A	FY23A	FY24E	FY25E
GDP (YoY %)	8.7	6.4	5.8	5.8
Repo rate (%)	4.0	6.5	5.5	5.5
USD/INR (average)	74.5	81.0	81.0	81.0
Freight margin (%)	4.5	4.4	4.5	4.7
SCM margin (%)	10.7	9.4	11.2	11.5
Real. per DWT (INR)	90,000	90,000	0	0
Freight div. (% YoY)	19.2	16.4	0	0
SCM growth(% YoY)	7.2	27.4	0	0
Seaways (% YoY)	44.4	4.9	0	0

Valuation Metrics

Year to March	FY22A	FY23A	FY24E	FY25E
Diluted P/E (x)	20.5	18.7	15.9	15.2
Price/BV (x)	4.2	3.5	3.0	2.6
EV/EBITDA (x)	14.4	13.6	12.1	10.9
Dividend yield (%)	0.5	0.6	0.6	0.7

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Share capital	155	155	155	155
Reserves	14,148	16,863	19,658	22,623
Shareholders funds	14,303	17,018	19,813	22,778
Minority interest	274	301	274	274
Borrowings	962	919	872	936
Trade payables	851	760	1,031	1,127
Other liab & prov	1,586	1,693	2,001	2,001
Total liabilities	18,041	20,766	24,010	27,134
Net block	7,983	7,884	9,425	10,316
Intangible assets	30	28	6	6
Capital WIP	73	260	260	260
Total fixed assets	8,087	8,172	9,691	10,582
Non current inv	1,780	1,977	1,770	1,770
Cash/cash equivalent	745	1,846	3,068	4,716
Sundry debtors	5,083	5,609	6,861	7,441
Loans & advances	13	12	12	12
Other assets	2,166	1,996	2,081	2,085
Total assets	18,041	20,766	24,010	27,134

Free Cash Flow (INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Reported profit	2,928	3,206	3,776	3,935
Add: Depreciation	1,130	1,214	1,342	1,580
Interest (net of tax)	86	66	65	65
Others	(302)	(150)	(1,007)	(1,019)
Changes in WC	(163)	(729)	(1,020)	(489)
Operating cash flow	3,680	3,607	3,157	4,073
Less: Capex	(707)	(1,530)	(2,953)	(2,471)
Free cash flow	2,973	2,077	203	1,601

Key Ratios

Year to March	FY22A	FY23A	FY24E	FY25E
RoE (%)	22.5	20.5	20.5	18.5
RoCE (%)	21.1	19.7	19.9	17.9
Receivable days	57	52	55	58
Payable days	9	8	8	9
cash conversion cycle	49	44	47	50
Working cap (% sales)	15.0	13.8	15.0	14.9
Gross debt/equity (x)	0.1	0.1	0	0
Net debt/equity (x)	0	(0.1)	(0.1)	(0.2)
Interest coverage (x)	23.0	30.8	34.0	35.5

Valuation Drivers

Year to March	FY22A	FY23A	FY24E	FY25E
EPS growth (%)	84.6	9.5	17.8	4.2
RoE (%)	22.5	20.5	20.5	18.5
EBITDA growth (%)	56.5	3.7	9.5	8.7
Payout ratio (%)	11.0	11.4	10.2	10.0

TRANSPORT CORPORATION

Exhibit 1: Quarterly snapshot

Financial snapshot - (standalone)

INR mn	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %	FY23	FY24E	FY25E
Revenues	8,598	8,072	6.5	8,897	(3.4)	34,302	36,896	39,746
Operating expenses	6,789	6,374	6.5	7,010	(3.2)	27,122	29,000	31,213
Employee Benefit Expenses	533	453	17.7	493	8.2	1,896	2,112	2,273
Others	309	254	21.7	340	(9.1)	1,218	1,381	1,486
Total expenditure	7,631	7,080	7.8	7,843	(2.7)	30,236	32,493	34,973
EBITDA	967	992	(2.5)	1,054	(8.3)	4,066	4,403	4,773
Depreciation	295	278	6.0	299	(1.2)	1,168	1,288	1,526
EBIT	672	713	(5.8)	756	(11.1)	2,898	3,115	3,247
Interest	21	19	12.3	21	1.9	82	82	80
Other income	277	159	74.0	114	142.1	623	588	555
Add: Exceptional items	0	0	NA	10	(100.0)	10	0	0
Profit Before Tax	928	854	8.7	840	10.5	3,429	3,621	3,723
Less: Provision for Tax	95	88	8.4	98	(3.5)	394	416	428
Reported Profit	833	766	8.7	741	12.4	3,035	3,205	3,295
Adjusted Profit	833	766	8.7	741	12.4	3,035	3,205	3,295
Adjusted Diluted EPS	10.8	10.0	8.7	9.7	12.4	39.5	41.7	42.9
P/E (x)						18.6	15.8	15.2
As % of net revenues								
Operating expenses	79.0	79.0		78.8		79.1	78.6	78.5
Staff expenses	6.2	5.6		5.5		5.5	5.7	5.7
Other expenses	3.6	3.1		3.8		3.6	3.7	3.7
EBITDA	11.2	12.3		11.9		11.9	11.9	12.0
Net profit	9.7	9.5		8.3		8.8	8.7	8.3

Source: Company, Nuvama 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	8.08	JP Morgan Chase	0.49
TATA AMC	1.55	Sundaram AMC	0.47
LIC Mutual Fund	1.01	BlackRock	0.16
Dimensional Fun	0.84	Wisdom Tree Inv	0.07
IDFC Mutual Fun	0.75	Acadian Asset M	0.03

*Latest public data

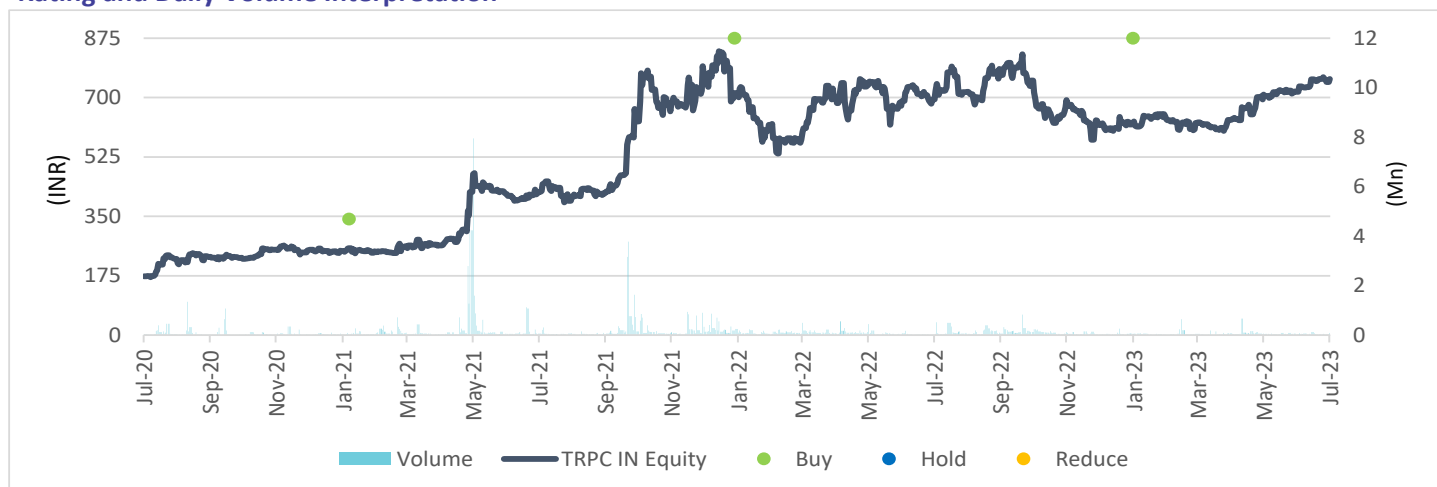
Recent Company Research

Date	Title	Price	Reco
19-May-23	Modest quarter; seaways drag margins; <i>Result Update</i>	650	Buy
30-Jan-23	Robust quarter; attractive valuation; <i>Result Update</i>	628	Buy
31-Oct-22	A modest H1; second half to be better; <i>Result Update</i>	715	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
27-Jul-23	Blue Dart Express	Margin pain in H1, but a story for H2; <i>Result Update</i>
25-Jul-23	Mahindra Logistics	Story hinges on express breakeven; <i>Result Update</i>
06-Jul-23	Logistics	Steady progress continues; <i>Sector Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	197
Hold	<15% and >-5%	64
Reduce	<-5%	18

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TRANSPORT CORPORATION

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