Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Transport Corporation of India Limited

Seasonally muted Q1; Retain Buy

Logistics	Sharekhan code: TCI
Reco/View: Buy ↔	CMP: Rs. 761 / Price Target: Rs. 890 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

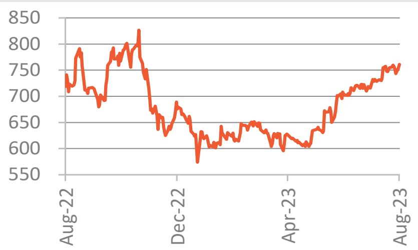
Company details

Market cap:	Rs. 5,910 cr
52-week high/low:	Rs. 845 / 556
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	68.9
FII	2.5
DII	12.8
Others	15.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.9	19.6	23.5	5.9
Relative to Sensex	2.0	11.3	12.2	-8.5

Sharekhan Research, Bloomberg

Summary

- We retain a Buy rating on TCI Limited with a revised PT of Rs. 890, considering its steady earnings growth trajectory aided by multi-modal capabilities.
- TCI reported a miss on the operational front, led by a miss on freight and Seaways revenues, although net profit came in marginally higher, led by strong growth in its Transystem JV.
- The management retained 10-15% y-o-y revenue and net profit growth, led by strong growth in SCM and flattish Seaways business. It eyes opportunities in cold chain business in the pharma sector.
- Company continues to scout for ship, which would provide a fillip to revenues and net earnings. However, better clarity on the timeline is expected by Q2 end.

Transport Corporation of India (TCI) reported a miss on the operational front led by lower-than-expected revenues in freight and seaway businesses. However, net profits were marginally high due to strong growth in Transystem JV. Consolidated revenues grew by 5.2% y-o-y to Rs. 950 crores, led by strong revenue growth in SCM (up 21% y-o-y). Freight remained muted (up 5% y-o-y), affected by seasonality. In comparison, seaways segment reported weak performance (down 19% y-o-y) affected by a sharp decline in Sea-freights and the marginal impact of the cyclone. Consolidated OPM stood at 10.6% (down 91 bps y-o-y), lower than our estimate of 11.0%, led by lower-than-expected OPMs in freight and SCM businesses. The company's Concor (down 7% y-o-y) and cold chain (almost flat y-o-y) JVs reported weak performance, while Transystem JV (49% stake) reported strong performance (Revenus/PAT up 58% y-o-y/75% y-o-y). Hence, consolidated net profit was up 5.9% y-o-y at Rs. 82.3 crores (marginally higher than our estimates). For FY2024, the management retained 10-15% y-o-y revenue and net profit growth guidance, led by strong SCM growth of 20% y-o-y and Seaways remaining flat. The company continues to scout for ship, better guidance on the timeline is expected by the end of Q2FY2024.

Key positives

- SCM business' revenues grew 21.3% y-o-y to Rs. 346 crore. Seaways reported over 300 bps y-o-y and q-o-q expansion in OPMs at 46.4%.
- Transystem JV reported 58% y-o-y growth in revenues and 75% y-o-y growth in net profit.

Key negatives

- Seaways revenues were lower by 19% y-o-y and 16% q-o-q at Rs. 117 crore primarily affected by steep decline in Sea freight rates.
- OPMs in freight and SCM declined q-o-q by 101 bps and 50 bps, respectively.

Management Commentary

- The management retained its topline and bottom line growth guidance of 10-15% y-o-y. It expects revenue CAGR of 12-17% over the next three years.
- The company is eyeing growth opportunities in its cold chain business, led by the government's declaration that pharma companies shift 60-70% of production to the cold chain.
- The capex for FY2024 is estimated at Rs. 375 crores (Rs. 43 crores incurred in Q1) which includes Rs. 125 crores earmarked for the ship acquisition. The ship acquisition still remains in discussion.

Revision in estimates – We have retained our earnings estimates for FY2024-FY2025.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 890: TCI is expected to drive overall revenue growth with strong growth envisaged in SCM business healthy growth run-rate in freight. At the same time, Seaways remains flat on lower volumes. The addition of one more ship in Seaways is being keenly awaited, which would provide further fillip to its growth outlook. TCI's multi-modal capabilities and exposure to almost all major end-user industries are expected to drive growth. We expect consolidated revenue/operating profit/net profit CAGR of 13%/14%/13%, respectively, over FY2023-FY2025E. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 890.

Key Risks

A sustained weak macroeconomic and auto industry environment can lead to downward revision in net earnings.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	3,258.8	3,782.6	4,258.8	4,793.2
OPM (%)	12.6	11.2	11.4	11.5
Adjusted PAT	289.6	321.4	363.8	406.8
% YoY growth	80.8	11.0	13.2	11.8
Adjusted EPS (Rs.)	37.5	41.6	47.1	52.6
P/E (x)	17.3	15.6	13.8	12.4
P/B (x)	3.5	2.9	2.4	2.1
EV/EBITDA (x)	12.3	12.0	10.4	9.2
RoNW (%)	22.3	20.5	19.4	18.2
RoCE (%)	17.7	16.3	15.5	15.0

Source: Company; Sharekhan estimates

Lower Seaways contribution leads to marginal operational miss

Transport Corporation of India reported consolidated net revenues of Rs. 950 crore (up 5% y-o-y, down 3% q-o-q) which was 5% lower than our estimate. The revenues from freight was up 2.6% y-o-y (-5.8% q-o-q) at Rs. 475 crore, Supply chain management revenues were up 20.1% y-o-y (+4.8% q-o-q) at Rs. 363 crore although Seaways revenues were down by 17.7% y-o-y (-17.6% q-o-q) at Rs. 125 crore. Consolidated OPM at 10.6% (-91bps y-o-y, -42bps q-o-q) was lower than our estimate of 11% due to lower contribution from high margin Seaways division. Weak OPM led to consolidated operating profit decline of 3.1% y-o-y (down 6.7% q-o-q) at Rs. 101 crore, which was 9% lower than our estimate. Weak operational performance was partially offset by higher other income (up 60% y-o-y) and higher income from JVs (Rs. 17.4 crore versus Rs. 10.6 crore/Rs. 9.8 crore in Q4FY2023/Q1FY2023). Consequently, consolidated adjusted net profit grew by 5.9% y-o-y (-3% q-o-q) at Rs. 82.3 crore, which was 3% higher than our estimate.

Key result highlights

- **Guidance:** The management retained its topline and bottomline growth guidance of 10-15% y-o-y. It expects revenue CAGR of 12-17% over the next three years. SCM business is expected to maintain strong growth over the three quarters while Q4 may see slower growth due to high base. Seaways business is expected to remain flat y-o-y while it would maintain margins.
- **Q1FY2024 performance:** The quarter was a descent quarter considering lot of pressure on volumes because of it being a seasonally weak quarter after year end. Consolidated revenues were up 5.2% y-o-y while PAT was up 5.9% y-o-y. The company has high cash surplus of Rs. 275 crores.
- **Capex:** The capex for FY2024 is estimated at Rs. 375 crores (Rs. 43 crores incurred in Q1) which includes Rs. 125 crores earmarked for acquisition of ship. The ship acquisition still remains in discussion while the management would be able to better guide on the same at the end of Q2FY2024. Meanwhile, ship unavailability still remains an issue along with price point of 2x.
- **Freight:** There is certain movement of business from unorganised to organised sector. It would be adding 50 new branches to increase LTL business.
- **Cold chain opportunity:** As per government's mandate, pharma companies have to move 60-70% of their productions to cold chain. The same is expected to start coming in over next few months. It has started to build capacities in its cold chain business to tap the opportunity.
- **Seaways:** The freight rates (10-20% in certain routes) came down due to 30% q-o-q fall in fuel prices (linked to international crude prices). It also lost few voyages due to cyclone. It is adding 500 containers, of which it received some in Q1. FY2024 would have only one ship for dry docking (done in Q1) as against three ships in FY2023.
- **Concor JV:** The division performed slightly weakly as shift towards rail was slow, it had let go few contracts and western loading was affected by the cyclone.
- **Transystem JV:** It reported strong revenue growth of 58% y-o-y and margin improvement in Q1.

Results (Consolidated) **Rs cr**

Particulars	Q1FY2024	Q1FY2023	y-o-y%	Q4FY2023	q-o-q%
Net sales	**949.8**	**902.9**	**5.2%**	**979.3**	**-3.0%**
Other income	8.5	5.3	59.8%	12.1	-29.6%
Total income	958.3	908.2	5.5%	991.4	-3.3%
Total expenses	849.0	798.9	6.3%	871.3	-2.6%
Operating profit	**100.8**	**104.1**	**-3.1%**	**108.1**	**-6.7%**
Depreciation	30.8	28.9	6.6%	31.1	-1.0%
Interest	2.3	2.3	-0.4%	2.4	-2.5%
Exceptional items	0.0	0.0		3.4	
Profit Before Tax	**76.2**	**78.2**	**-2.5%**	**83.3**	**-8.5%**
Taxes	10.4	9.3	11.3%	11.5	-9.3%
PAT	65.8	68.8	-4.4%	71.8	-8.4%
Minority Interest/JV income	-16.5	-8.9	85.2%	-9.7	70.6%
Adjusted PAT	**82.3**	**77.7**	**5.9%**	**84.9**	**-3.0%**
EPS (Rs.)	10.6	10.1	5.9%	11.0	-3.0%
Margins					
OPM (%)	10.6%	11.5%	-91 bps	11.0%	-42 bps
NPM (%)	8.7%	8.6%	6 bps	8.7%	0 bps
Tax rate (%)	13.6%	11.9%	170 bps	13.8%	-12 bps

Source: Company Data; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook led by changing consumer preferences and macro pick-up

The logistics industry had been one of the key sectors which showed a strong revival post-COVID-19 pandemic that affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail freight volume, domestic port volume, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business, led by user industries' preference towards credible supply chain management in the wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen a faster improvement in operations, led by segments such as e-Commerce, pharma, and FMCG. Hence, we upgrade our view on the logistics sector to Positive from Neutral.

■ Company Outlook – Strong headroom for long-term growth

TCI has strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and supply-chain businesses, with over six decades of experience, give it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory driven by positive sectoral fundamentals and its inherent strengths and capabilities.

■ Valuation – Retain Buy with a revised price target of Rs. 890

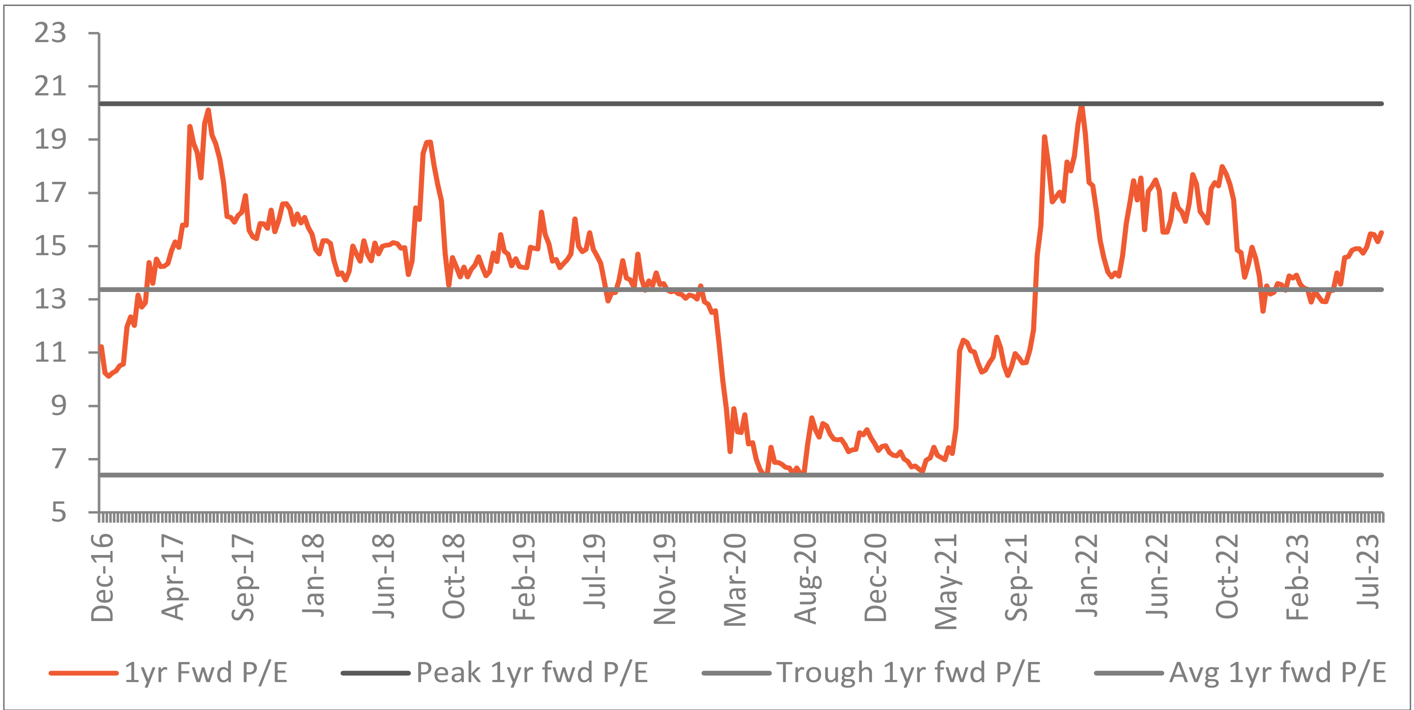
TCI is expected to drive overall revenue growth with strong growth envisaged in SCM business, a healthy growth run-rate in freight, while Seaways remains flat on lower volumes. The addition of one more ship in Seaways is keenly awaited, providing further fillip to its growth outlook. TCI's multi-modal capabilities and exposure to almost all major end-user industries are expected to drive growth. We expect consolidated revenue/operating profit/net profit CAGR of 13%/14%/13%, respectively, over FY2023-FY2025E. We expect TCI to be on a long-term growth trajectory driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 890.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	9x EV/EBITDA on FY2025E	949	123
SCM	10x EV/EBITDA on FY2025E	2062	267
Seaways	10x EV/EBITDA on FY2025E	2479	321
Less: Net Debt	FY2025E	-684	-89
Value of core verticals		6175	799
Transystem JV	1x P/B	703	91
Price target			**890**

Source: Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
TCI	16.2	14.5	12.2	10.7	2.9	2.4	19.4	18.2
TCI Express	34.4	27.7	24.2	19.5	8.1	6.5	26.1	26.2
Mahindra Logistics	-	35.8	7.3	5.7	4.0	3.6	2.9	11.9

Source: Sharekhan Research

About the company

TCI is India's leading integrated supply chain and logistics solutions provider with over six decades of experience. The company has an extensive pan-India network with a presence across major districts. TCI has 12 mn. sq. ft. of warehousing space. The company has three broad business verticals. TCI Freight transports cargo on FTL/ LTL/small packages and consignments/over-dimensional cargo. TCI Supply Chain Solutions: The core service offerings are supply chain consultancy, inbound logistics, warehousing/distribution centre management, and outbound logistics. TCI Seaways: TCI Seaways owns six ships and caters to coastal cargo requirements for transporting containers and bulk cargo.

Investment theme

TCI has strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and the supply chain business with over six decades of experience, gives it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory driven by positive sectoral fundamentals and its inherent strengths and capabilities.

Key Risks

- Slowdown in the macroeconomy leading to a weak logistics industry outlook.
- High concentration on the automotive industry.
- Highly competitive industry.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman and Managing Director
Mr. Vineet Agarwal	Managing Director
Mr. Ashish Tiwari	Group Chief Financial Officer
Ms. Archana Pandey	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bhoruka Supply Chain Solutions Hol	44.3
2	Agarwal Dharmpal P	10.1
3	HDFC Asset Management Co Ltd	7.9
4	Agarwal Vineet	4.0
5	Agarwal Priyanka	3.8
6	Agarwal Urmila	2.4
7	Agarwal Chander	2.4
8	Tata Asset Management Pvt Ltd	1.4
9	INVESTOR EDUCATION & PROTECTN FD	1.3
10	Bang Nirmal Mishrilal	1.1

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 SHAREKHAN and affiliates 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.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/ CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022 - 33054600