

BUY
TP: Rs 365 | ▲ 27%

TRANSPORT CORP OF INDIA

Logistics

06 November 2019

Growth subdued across segments

Transport Corp (TRPC) saw muted consolidated revenue/EBITDA growth of 1%/2% YoY in Q2FY20 as the weak demand climate weighed on segmental performance. Higher contribution from the Transystem JV (+50% YoY) and restatement of deferred tax boosted adj. PAT (48% YoY). Though near-term headwinds persist, client addition in the SCS segment, growing LTL share, and steady growth in seaways are key positives. We trim FY20-FY22 EBITDA by 2-4%; on rolling valuations over to Mar'22, we retain our TP of Rs 365.

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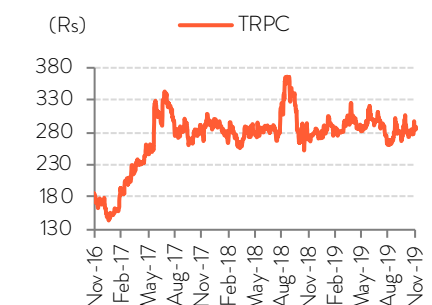
Sedate growth across segments: TRPC's freight division grew at a modest 3% YoY due to subdued demand and a high base of Q2FY19. In seaways, increased competitive pressure dented volumes and realisations on the west coast, capping growth at 8% YoY. SCS revenue declined 3% YoY but was resilient compared to the plummeting volumes of key auto clients, with non-auto verticals lending support (+15-20% YoY). Considering the challenges, management lowered FY20 topline growth guidance to 8-10% from 11-12%.

Ticker/Price	TRPC IN/Rs 288
Market cap	US\$ 310.8mn
Shares o/s	77mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 330/Rs 250
Promoter/FPI/DII	67%/2%/10%

Source: NSE

Margins buoyant: Despite a muted topline, EBITDA margin was steady at 8.6% (+7bps YoY). EBIT margins in seaways/freight expanded 230bps/17bps YoY, while that of SCS fell 80bps YoY due to lower revenue.

STOCK PERFORMANCE



Source: NSE

Key developments: TRPC has added several new clients in the SCS segment across FMCG, e-commerce and auto verticals. Warehousing revenue is also growing steadily. A new ~28,400dwt ship will bolster its presence in the southwest coast, which is expected to contribute revenues from Q4.

Maintain TP: We trim FY20-FY22 revenue and EBITDA estimates by 2-4%. On rollover, our SOTP-based Mar'21 TP remains at Rs 365. Retain BUY.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	23,499	27,536	29,433	34,312	40,109
EBITDA (Rs mn)	2,165	2,495	2,741	3,305	3,935
Adj. net profit (Rs mn)	1,238	1,460	1,647	1,902	2,322
Adj. EPS (Rs)	16.2	19.0	21.5	24.8	30.3
Adj. EPS growth (%)	52.4	17.7	12.8	15.5	22.0
Adj. ROAE (%)	17.6	17.7	17.1	17.0	17.9
Adj. P/E (x)	17.8	15.1	13.4	11.6	9.5
EV/EBITDA (x)	11.9	10.6	9.7	7.9	6.6

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Total revenues	6,846	6,752	1.4	6,592	3.8	13,438	13,002	3.4
Operating expenses	5,576	5,555	0.4	5,369	3.8	10,945	10,677	2.5
% of sales	81.5	82.3	(81bps)	81.5	0bps	81.5	82.1	(67bps)
Employee expenses	386	357	8.1	384	0.6	770	702	9.7
% of sales	5.6	5.3	35bps	5.8	(18bps)	5.7	5.4	33bps
Other expenses	297	266	11.5	255	16.3	552	525	5.0
% of sales	4.3	3.9	39bps	3.9	46bps	4.1	4.0	6bps
Total expenditure	6,258	6,178	1.3	6,008	4.2	12,266	11,903	3.0
EBITDA	587	575	2.2	584	0.5	1,171	1,098	6.7
EBITDA margin (%)	8.6	8.5	7bps	8.9	(28bps)	8.7	8.4	27bps
Depreciation	203	194	5.0	199	2.0	403	365	10.4
EBIT	384	381	0.8	385	(0.2)	769	734	4.8
Interest expenses	82	97	(15.2)	87	(5.2)	169	171	(1.1)
Other income	41	53	(22.2)	35	16.5	76	96	(20.5)
PBT	343	336	1.9	333	2.9	676	658	2.7
PBT margin (%)	5.0	5.0	2bps	5.1	(5bps)	5.0	5.1	(3bps)
Share of profit/(loss) from JV	92	61	49.5	84	9.8	175	114	54.0
PBT - after share of profit/(loss) from JV	435	398	9.2	417	4.3	851	772	10.2
Extraordinary income/(expense)	(99)	-	NM	-	NM	(99)	-	NM
Tax rate	(47)	72	NM	72	NM	26	149	(82.9)
Tax rate (%) – total	(10.7)	18.2	NM	17.3	NM	3.8	22.7	(1,891bps)
Reported PAT	382	326	17.5	344	11.0	727	623	16.7
Adjustment	99	-	NM	-	NM	99	-	NM
Adjusted PAT	481	326	47.8	344	39.7	826	623	32.6
Adjusted PAT margin (%)	7.0	4.8	221bps	5.2	180bps	6.1	4.8	135bps
Adjusted EPS	6.3	4.2	47.7	4.5	39.7	10.8	8.1	32.6

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Freight segment								
Revenue	3,548	3,450	2.8	3,386	4.8	6,934	6,666	4.0
EBIT	101	93	9.3	90	12.3	192	171	12.3
EBIT margin	2.9	2.7	17bps	2.7	19bps	2.8	2.6	20bps
Supply chain management segment								
Revenue	2,478	2,552	(2.9)	2,439	1.6	4,918	4,927	(0.2)
EBIT	158	184	(14.0)	168	(5.4)	326	347	(6.1)
EBIT margin	6.4	7.2	(83bps)	6.9	(47bps)	6.6	7.0	(41bps)
Seaways segment								
Revenue	854	788	8.3	789	8.3	1,643	1,503	9.3
EBIT	145	116	25.1	157	(7.1)	302	253	19.5
EBIT margin	17.0	14.7	229bps	19.8	(282bps)	18.4	16.8	158bps

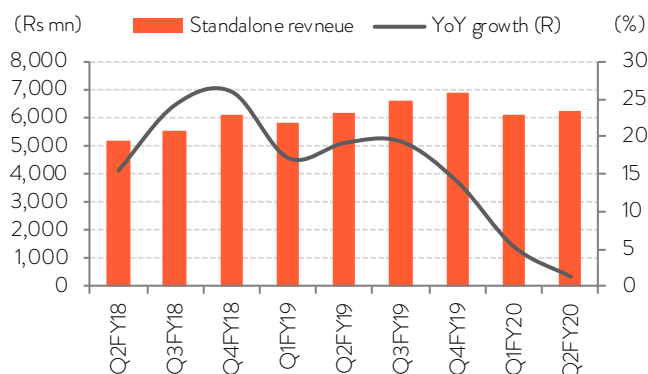
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE – STANDALONE

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Total revenues	6,282	6,203	1.3	6,121	2.6	12,403	12,018	3.2
Operating expenses	5,062	5,066	(0.1)	4,942	2.4	10,004	9,781	2.3
% of sales	80.6	81.7	(11bps)	80.7	(16bps)	80.7	81.4	(73bps)
Employee expenses	374	347	7.8	372	0.3	746	680	9.7
% of sales	5.9	5.6	36bps	6.1	(14bps)	6.0	5.7	36bps
Other expenses	281	259	8.7	245	15.0	526	513	2.5
% of sales	4.5	4.2	31bps	4.0	48bps	4.2	4.3	(3bps)
Total expenditure	5,717	5,672	0.8	5,559	2.8	11,276	10,974	2.8
EBITDA	566	531	6.5	562	0.6	1,128	1,044	8.0
EBITDA margin (%)	9.0	8.6	44bps	9.2	(18bps)	9.1	8.7	40bps
Depreciation	190	191	(0.3)	186	2.1	376	359	4.9
EBIT	376	341	10.3	376	(0.1)	752	686	9.6
Interest expenses	77	93	(17.2)	82	(6.6)	159	163	(2.4)
Other income	84	81	2.8	75	10.9	159	164	(2.9)
PBT	382	329	16.3	369	3.6	751	646	16.3
PBT margin (%)	6.1	5.3	78bps	6.0	6bps	6.1	5.4	68bps
Extraordinary income/(expense)	(99)	-	NM	-	NM	(99)	-	NM
Tax rate	(49)	70	NM	72	NM	22	145	(84.6)
Tax rate (%) – total	(12.8)	21.3	NM	19.4	NM	3.0	22.5	(1,951bps)
Reported PAT	333	259	28.5	297	11.8	630	501	25.8
Adjustment	99	-	NM	-	NM	99	-	NM
Adjusted PAT	431	259	66.7	297	45.0	729	501	45.5
Adjusted PAT margin (%)	6.9	4.2	269bps	4.9	201bps	5.9	4.2	171bps
Adjusted EPS	5.6	3.4	66.7	3.9	45.0	9.5	6.5	45.5

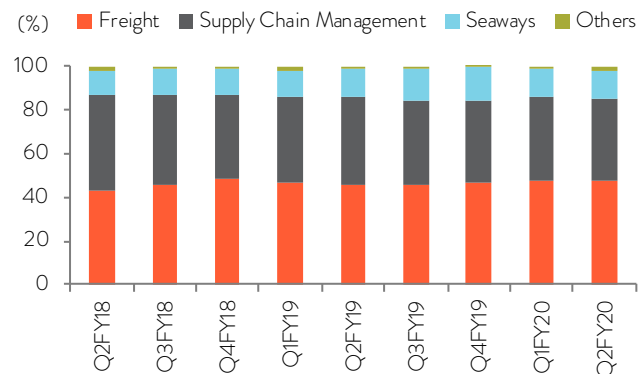
Source: Company, BOBCAPS Research

FIG 4 – STANDALONE REVENUE GROWTH DECELERATED TO 1.3% YOY IN Q2



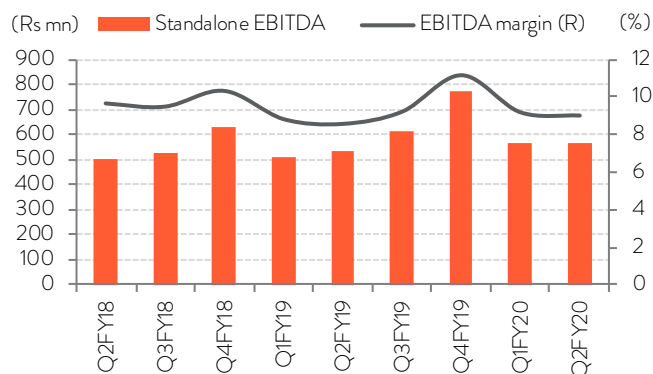
Source: Company, BOBCAPS Research

FIG 5 – SHARE OF FREIGHT AND SEAWAYS SEGMENTS INCHED UP



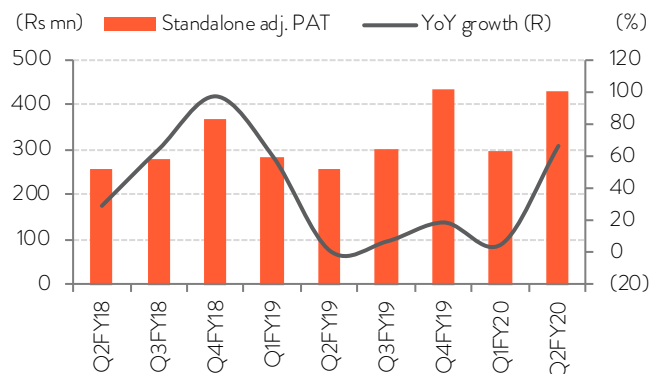
Source: Company, BOBCAPS Research

FIG 6 – STANDALONE EBITDA MARGIN EXPANDED 44BPS YOY TO 9%



Source: Company, BOBCAPS Research

FIG 7 – DEFERRED TAX ADJUSTMENT BOOSTED ADJ. PAT BY 67% YOY



Source: Company, BOBCAPS Research

Earnings call highlights

- Subdued economic conditions continued to weigh on TRPC’s performance across business segments.
- Management has lowered FY20 topline growth guidance to 8-10% from 11-12% earlier.

Freight segment

- The industrial slowdown affected tonnage growth in Q2FY20. However, benign diesel prices, higher contribution from LTL (less-than-truckload) business, and cost reduction initiatives aided margin expansion.
- LTL share currently stands at ~33% of total freight revenue and is increasing steadily.
- Management expects freight revenue growth to improve in H2FY20.

Supply chain solutions (SCS) segment

- Plummeting sale volumes and a consequent reduction in production days by auto OEMs has translated into lower growth in the SCS segment – auto accounts for ~80% of segmental revenue.
- Auto weakness (revenue from auto vertical down 4-5% YoY) has been partially offset by (1) growth in other industry verticals (mainly e-commerce, up 15-20%); (2) a diversified presence within auto – two-wheelers, passenger and commercial vehicles, tractors and earth-moving equipment; and (3) the addition of new clients in both auto and non-auto verticals.

- TRPC has won transportation contracts from an auto OEM that is a recent entrant in India, and added FMCG brands and e-commerce companies in its clientele.
- The company expects some uptick in SCS revenue in H2 (0-5% growth in FY20), triggered by pre-BS-IV auto sales.

Seaways segment

- Revenue and margins in seaways have been affected by lower realisations on the west coast owing to higher competition, dry docking and the sluggish demand climate.
- TRPC added one 28,400dwt ship in Oct'19, which was purchased at a lower cost than anticipated. Material revenue contribution should begin from Q4 after the initial stabilisation period.
- IMO 2020 regulations are expected to have minimal impact.
- The company has transitioned to the new corporate tax regime. Q2 profits had a one-off positive impact from restatement of deferred tax liabilities.
- The FY20 capex target has been cut to Rs 1.3bn-1.4bn vs. Rs 2.8bn earlier due to the lower ship acquisition cost and a reduction in truck and container addition plans amidst the economic slowdown. The annual capex run rate would be ~Rs 1.5bn going ahead.
- Receivable days have improved to ~60 days in H1FY20 from 68 in FY19 owing to tighter control and recovery of pending dues.

Valuation methodology

We pare our FY20-FY22 revenue and EBITDA estimates by 2-4% considering the difficult external environment. The impact on earnings is lower due to a downward revision in capex estimates. We value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core businesses and P/E multiple for the Transystem JV. Post estimate revision, rollover to Mar'22 valuations, and a reduction in target multiples for the freight/SCS segments (to 6x/8x vs. 7x/10x earlier), our Mar'21 target price remains unchanged at Rs 365. Maintain BUY.

FIG 8 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	30,790	29,433	(4.4)	35,576	34,312	(3.6)	41,106	40,109	(2.4)
EBITDA	2,857	2,741	(4.1)	3,429	3,305	(3.6)	4,035	3,935	(2.5)
EBITDA margin (%)	9.3	9.3	3bps	9.6	9.6	0bps	9.8	9.8	0bps
PAT	1,692	1,647	(2.7)	1,960	1,902	(2.9)	2,324	2,322	(0.1)
PAT margin (%)	5.5	5.6	10bps	5.5	5.5	4bps	5.7	5.8	14bps

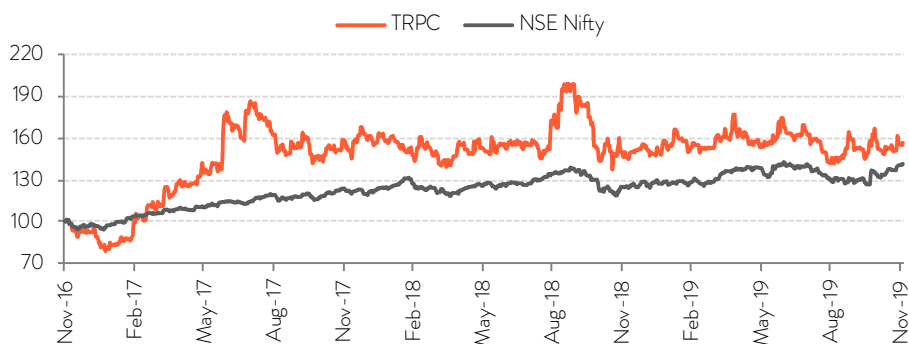
Source: Company, BOBCAPS Research

FIG 9 – VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
Freight segment	
FY22E EBITDA	832
EV/EBITDA multiple applied (x)	6.0
Total EV for the segment	4,991
Supply chain segment	
FY22E EBITDA	1,513
EV/EBITDA multiple applied (x)	8.0
Total EV for the segment	12,104
Seaways segment	
FY22E EBITDA	1,605
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	11,235
Total EV of the consolidated business (ex. JV)	28,329
Net debt	3,819
Equity value of the consolidated business (ex. JV)	24,510
FY22E EPS of Transystem Logistics	784
P/E multiple applied (x)	9.0
Fair value of Transystem Logistics	7,060
Share of TRPC (%)	49
Valuation attributed to TRPC	3,459
Total equity value including JV	27,969
No. of shares	76.7
Target price	365

Source: Company, BOBCAPS Research

FIG 10 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

The main downside risks to our estimates are:

- a sharp increase in diesel prices,
- delay in demand recovery in the key auto sector,
- high client attrition in the SCS business, and
- lower-than-expected utilisation in the seaways segment.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	23,499	27,536	29,433	34,312	40,109
EBITDA	2,165	2,495	2,741	3,305	3,935
Depreciation	687	774	919	1,057	1,194
EBIT	1,478	1,721	1,822	2,248	2,742
Net interest income/(expenses)	(322)	(374)	(341)	(341)	(328)
Other income/(expenses)	144	195	178	181	190
Exceptional items	0	0	0	0	0
EBT	1,301	1,542	1,659	2,087	2,604
Income taxes	(287)	(333)	(348)	(534)	(667)
Extraordinary items	0	(7)	0	0	0
Min. int./Inc. from associates	224	251	336	349	384
Reported net profit	1,238	1,453	1,647	1,902	2,322
Adjustments	0	7	0	0	0
Adjusted net profit	1,238	1,460	1,647	1,902	2,322

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	597	674	631	736	862
Other current liabilities	805	1,336	1,613	1,880	2,198
Provisions	55	65	70	81	95
Debt funds	4,411	4,722	4,362	4,162	3,562
Other liabilities	0	0	0	0	0
Equity capital	153	153	153	153	153
Reserves & surplus	7,511	8,819	10,267	11,940	13,842
Shareholders' fund	7,664	8,972	10,420	12,093	13,995
Total liabilities and equities	13,533	15,770	17,095	18,952	20,711
Cash and cash eq.	142	155	279	342	190
Accounts receivables	4,249	5,151	5,645	6,580	7,692
Inventories	33	53	57	66	77
Other current assets	1,198	1,583	1,683	1,962	2,293
Investments	1,044	1,168	1,168	1,168	1,168
Net fixed assets	6,252	7,263	7,884	8,327	8,634
CWIP	563	40	0	0	0
Intangible assets	6	5	5	5	5
Deferred tax assets, net	(445)	(390)	(390)	(390)	(390)
Other assets	491	741	764	891	1,041
Total assets	13,533	15,770	17,095	18,952	20,711

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,925	2,234	2,566	2,959	3,515
Interest expenses	322	374	341	341	328
Non-cash adjustments	50	(55)	0	0	0
Changes in working capital	(832)	(940)	(383)	(966)	(1,148)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,465	1,613	2,523	2,334	2,695
Capital expenditures	(1,523)	(1,261)	(1,500)	(1,500)	(1,500)
Change in investments	(177)	(124)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,700)	(1,386)	(1,500)	(1,500)	(1,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	595	312	(361)	(200)	(600)
Interest expenses	(322)	(374)	(341)	(341)	(328)
Dividends paid	(123)	(138)	(199)	(229)	(420)
Other financing cash flows	40	(14)	0	0	0
Cash flow from financing	191	(214)	(900)	(770)	(1,348)
Changes in cash and cash eq.	(44)	13	123	64	(153)
Closing cash and cash eq.	142	155	279	342	190

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	16.2	19.0	21.5	24.8	30.3
Adjusted EPS	16.2	19.0	21.5	24.8	30.3
Dividend per share	1.6	1.8	2.6	3.0	5.5
Book value per share	99.5	116.4	135.2	157.1	181.9

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.1	1.0	0.9	0.8	0.6
EV/EBITDA	11.9	10.6	9.7	7.9	6.6
Adjusted P/E	17.8	15.1	13.4	11.6	9.5
P/BV	2.9	2.5	2.1	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	95.2	94.7	99.3	91.1	89.2
Interest burden (PBT/EBIT)	88.0	89.6	91.1	92.9	95.0
EBIT margin (EBIT/Revenue)	6.3	6.2	6.2	6.6	6.8
Asset turnover (Revenue/Avg TA)	2.0	2.1	2.0	2.2	2.3
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.5	1.4	1.3
Adjusted ROAE	17.6	17.7	17.1	17.0	17.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	21.0	17.2	6.9	16.6	16.9
EBITDA	33.6	15.3	9.8	20.6	19.1
Adjusted EPS	52.4	17.7	12.8	15.5	22.0
Profitability & Return ratios (%)					
EBITDA margin	9.2	9.1	9.3	9.6	9.8
EBIT margin	6.3	6.2	6.2	6.6	6.8
Adjusted profit margin	5.3	5.3	5.6	5.5	5.8
Adjusted ROAE	17.6	17.7	17.1	17.0	17.9
ROCE	12.7	12.9	12.5	14.1	15.9
Working capital days (days)					
Receivables	67	66	68	70	70
Inventory	1	1	1	1	1
Payables	10	10	9	9	9
Ratios (x)					
Gross asset turnover	3.4	3.2	2.9	3.0	3.1
Current ratio	3.9	3.3	3.3	3.3	3.3
Net interest coverage ratio	4.6	4.6	5.3	6.6	8.4
Adjusted debt/equity	0.6	0.5	0.4	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

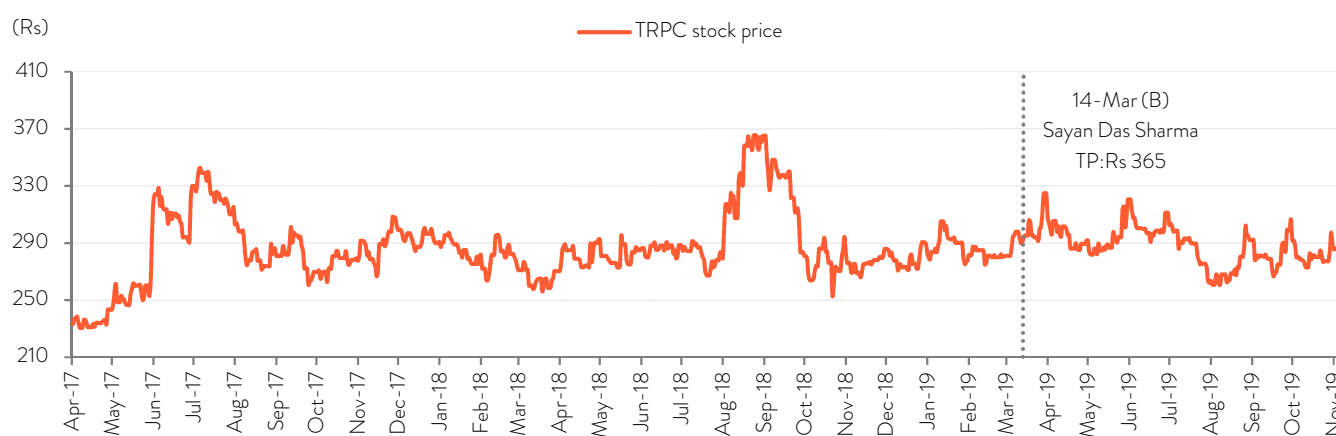
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: TRANSPORT CORP OF INDIA (TRPC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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