

Transport Corporation of India

BUY

Decent recovery, can see a better traction in H2FY21

Institutional Research

CMP (Rs)	227
Target (Rs)	310
Upside (%)	37%

Nifty: 11,774 Sensex: 40,138

Key Stock Data

Bloomberg	TRPC IN
Shares O/s Mn (FV INR10)	76.8
Mkt Cap(USD Mn/INR Bn)	0.2/17.5
52-week high/low	303/121
6m daily avg vol(INR Mn)	16
Free Float %	35

Price Performance

(%)	3m	1yr	3yr
TRPC	30.2	(20.1)	(7.3)
Nifty	6.5	(0.0)	5.5
NSE500	6.9	0.7	2.8
BSE Midcap	6.9	0.7	(2.6)

Shareholding Pattern

(%)	Mar20	Jun20	Sep20
Promoter	66.9	66.9	66.7
FII	1.8	1.7	1.6
DII	10.1	10.2	12.2
Others	21.3	21.2	19.5

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Transport Corporation of India (TCI) reported a decent show as revenue was lower by just 2.6% y-o-y to Rs 6.1bn. It has witnessed a recovery in all segments except in freight segment which seems to remain under pressure due to higher exposures to SME clients. SCM vertical witnessed a mild recovery with a growth of 2.2% y-o-y and witnessed a healthy latent demand whereas the coastal shipping division continued to perform well despite one ship was under dry-dock. EBITDA margin improved by 60bps y-o-y to 9.6% as most operating costs were contained. Going ahead, we are expecting better growth traction in SCM segment due to recovery in automobile industry and also expecting freight division to see an improvement due to improving demand situations. We remain positive on TCI on the back of its large logistics infrastructure and proven track record of execution across verticals. It is currently trading at an attractive valuation of 9x on FY22E EPS. Maintain 'Buy'.

Decent recovery across verticals except freight division

TCI witnessed a decent recovery across verticals led by the coastal shipping and SCM divisions. However, freight division was under pressure with a 9% y-o-y decline in revenue due to its high exposure to SME clients. Though it witnessed a better latent demand in the month of September which is likely to continue further in the coming quarters. It able to ramp up operations to 85-90% increased movement of goods, pent up demand and restocking due to festive season.

The coastal shipping division remains resilient and witnessed a growth of 9.2% y-o-y despite one of its ships was under dry docking. New ship addition in Nov'19 also supported the growth. It is witnessing a better demand on the western coast for a cargo movement from Gujarat to southern states. Despite low cargo and high competition, coastal shipping has been witnessing a good occupancy and currently operating at 90% plus level especially on the western coast. Further, it is planning add one more ship in Q4FY21 which will support the growth in FY22.

SCM – Automotive demand recovery supported the growth

SCM division reported a recovery after consecutive revenue decline in the immediate four quarters. Recovery with a sales growth of 2.2% y-o-y was bit low but it witnessed a much better latent demand in Sept'20 which is likely to improve significantly in H2FY21. SCM recovery was largely on account of automotive demand recovery along with growth in e-commerce, consumer durables and FMCG sectors. We remain positive on SCM business over the medium to longer term on the back of superior offerings, wide client base and hybrid business model.

Cost containment continued to support margin

EBITDA margin improved by 60bps y-o-y to 9.6%. The company continued to manage the costs well especially in admin and staff costs which were lower by 12% and 19% y-o-y. All segments managed to report a margin improvement led by freight division where EBITDA margin improved by 60bps. Despite a cost pressure w.r.t. compliance with IMO regulation, coastal shipping reported a stable EBITDA margin at 28%. Further, bunker rates have been good which helped in maintaining the margin in coastal shipping division.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Sales	23,461	27,537	27,178	25,308	30,363
yoy (%)	20.8	17.4	-1.3	-6.9	20.0
EBITDA	2,127	2,495	2,405	2,178	2,957
yoy (%)	32.4	17.3	-3.6	-9.4	35.7
PAT	1,238	1,453	1,432	1,232	1,983
yoy (%)	52.4	17.3	-1.4	-14.0	61.0
EBITDAM (%)	9.1%	9.1%	8.9%	8.6%	9.7%
NPM (%)	5.3%	5.3%	5.3%	4.9%	6.5%
EPS (Rs)	16.2	19.0	18.6	16.0	25.8

Exhibit 2: Key Indicators

Y/E Mar	FY18	FY19	FY20	FY21E	FY22E
Equity	153.2	153.3	153.7	153.7	153.7
RoE (%)	17.6	17.6	14.9	11.5	16.3
RoCE (%)	14.8	15.6	13.2	10.7	14.6
ROIC (%)	15.1	15.8	14.1	12.2	16.1
D:E (x)	0.5	0.5	0.4	0.3	0.3
PER (x)	14.0	11.9	12.1	14.1	8.8
P/BV (x)	2.3	1.9	1.7	1.5	1.3
EV/Sales (x)	0.9	0.8	0.8	0.8	0.7
EV/ EBITDA (x)	9.9	8.5	8.6	9.2	6.7

Source: Company, AMSEC Research

Outlook & Valuation

TCI witnessed a better recovery than expected and its agility to manage the costs surprised us positively. We expect much better growth recovery from H2FY21 onwards mainly on account of recovery in automotive and industrial sectors. We maintain our positive stance on TCI on the back of its large logistics infrastructure and proven track record of execution across verticals which will help it winning new accounts/clients across verticals. Further, its return ratios will continue to improve due to favorable change in business mix and prudent capital allocation. **Despite, expected capex of Rs 3.5-4bn over the next thre/e years, TCI will generate cumulative FCF of ~Rs 3bn over FY21-23E and its cash conversions remains healthy as its average pre-tax OCF/EBITDA over the last three years stands at 98%.** At CMP, TCI trades at 14x and 9x on FY21E and FY22E earnings respectively. We maintain 'Buy' with a price target of Rs 310 based on 12x FY22E earnings.

Exhibit 3: 2QFY21 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Y-o-y change	q-o-q change	H1FY21	H1FY20	Y-o-y change
Income from operations	6,282	6,473	6,257	3,280	6,122	-2.6%	86.7%	9,402	12,403	-24.2%
Less: Expenditures										
Operating cost	5,062	5,241	5,025	2,587	4,976	-1.7%	92.3%	7,563	10,004	-24.4%
Staff cost	374	370	408	289	329	-11.9%	14.0%	618	746	-17.2%
Other op. & admin cost	281	235	245	126	227	-19.3%	80.4%	353	526	-32.9%
EBITDA	566	627	580	279	590	4.3%	111.9%	869	1,128	-23.0%
Other Income	84	58	67	89	71	-15.2%	-20.4%	160	159	0.6%
Depreciation	190	204	197	195	198	4.3%	1.4%	393	376	4.6%
EBIT	459	481	450	172	463	0.8%	168.7%	635	911	-30.2%
Interest	77	84	80	70	64	-17.3%	-8.5%	133	159	-16.4%
Profit Before Tax	382	396	370	103	399	4.4%	288.8%	502	751	-33.2%
Tax	(49)	75	57	4	78	-259.5%	1809.8%	82	22	267.9%
Profit after Tax	432	321	313	99	321	-25.6%	225.6%	420	729	-42.4%
Extraordinary items	(99)					-1	#DIV/0!	-	(99)	NA
Net Profit	333	321	313	99	321	-3.5%	225.6%	420	630	-33.4%
EPS	4.33	4.18	4.07	1.28	4.2	-3.5%	225.6%	5.46	8.20	-33.4%
Operating Matrix						bps	bps			bps
Operating cost/Sales	80.6%	81.0%	80.3%	78.9%	81.3%	71	241	80.4%	80.7%	(21)
Staff cost/Sales	5.9%	5.7%	6.5%	8.8%	5.4%	(57)	(343)	6.6%	6.0%	55
Others/Sales	4.5%	3.6%	3.9%	3.8%	3.7%	(77)	(13)	3.8%	4.2%	(49)
EBITDA Margin	9.0%	9.7%	9.3%	8.5%	9.6%	63	115	9.2%	9.1%	15
Net Margin	5.3%	5.0%	5.0%	3.0%	5.2%	(5)	224	4.5%	5.1%	(62)
ETR	-12.8%	18.9%	15.5%	4.0%	19.6%	3,245	1,562	16.4%	3.0%	1,343

Source: Company, AMSEC Research,

Exhibit 4: 1QFY21 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Y-o-y change	q-o-q change	H1FY21	H1FY20	Y-o-y change
Revenue										
Transport Division	3,058	3,203	3,227	1,578	2,781	-9.1%	76.2%	4,359	6,048	-27.9%
XPS Division										
Supply Chain Solutions Division	2,413	2,368	2,078	1,056	2,467	2.2%	133.6%	3,523	4,804	-26.7%
TCI Seaways Division	854	989	1,046	682	932	9.2%	36.7%	1,614	1,643	-1.7%
Wind Power Division	30	5	6	14	17	-43.4%	23.5%	30	44	-31.5%
Intersegments/ Others	(73)	(91)	(33)	39	(75)	3.2%	-293.1%	(36)	(135)	-73.2%
Total	6,282	6,473	6,257	3,280	6,122	-2.6%	86.7%	9,402	12,403	-24.2%
EBIT										
Transport	90.7	116.6	116.7	20.4	97.6	7.6%	378.4%	118.0	173.7	-32.1%
SCM	160.1	131.4	101.2	31.4	163.7	2.2%	421.3%	195.1	327.6	-40.4%
Coastal	145.4	226.3	225.0	40.6	154.5	6.3%	280.5%	195.1	301.9	-35.4%
Wind Power	20.4	(1.3)	(0.1)	7.7	10.8	-47.1%	40.3%	18.5	25.7	-28.0%
Total	416.6	473.0	442.8	100.1	426.6	2.4%	326.2%	526.7	828.9	-36.5%
EBIT Margin						bps	bps			
Transport	3.0%	3.6%	3.6%	1.3%	3.5%	54	221.7	2.7%	2.9%	(16.5)
SCM	6.6%	5.6%	4.9%	3.0%	6.6%	0.2	366.2	5.5%	6.8%	(128.2)
Coastal	17.0%	22.9%	21.5%	6.0%	16.6%	(45.4)	1,062.1	12.1%	18.4%	(629.4)
Wind Power	68.7%	-28.3%	-1.7%	56.6%	64.3%	(440.1)	766.8	60.9%	57.9%	297.2
Total	6.6%	7.3%	7.1%	3.1%	7.0%	33.7	391.6	5.6%	6.7%	(108.1)

Source: Company, AMSEC Research

Financials (Consolidated)**(Rs mn)****Profit and Loss Account**

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
Operating Income	23,461	27,537	27,178	25,308	30,363
Less:					
Operating expenses	19,068	22,515	22,143	20,500	24,382
Staff expenses	1,245	1,402	1,572	1,572	1,808
Selling, admin and other expenses	1,021	1,124	1,058	1,058	1,217
EBITDA	2,127	2,495	2,405	2,178	2,957
Depreciation	687	774	825	841	885
Operating profit	1,441	1,721	1,580	1,338	2,072
Other income	182	195	201	202	243
EBIT	1,623	1,916	1,782	1,540	2,315
Interest	322	374	343	313	313
Exceptional items	-	-	-	-	-
Profit before tax	1,301	1,542	1,438	1,227	2,001
Tax	287	333	159	196	320
Profit share in JV & asso.	224	251	252	201	302
PAT	1,238	1,453	1,432	1,232	1,983
EO Items	-	-	-	-	-
Net Profit	1,238	1,453	1,432	1,232	1,983
Share O/s mn	76.6	76.7	76.9	76.9	76.9
EPS Rs	16.2	19.0	18.6	16.0	25.8

Cash Flow Statement

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
PBT	1,525	1,786	1,591	1,227	2,001
Non-cash adjustments	1,005	1,141	1,231	1,154	1,198
Chg in working capital	(342)	(719)	117	127	(712)
Tax & Interest Paid	(368)	(342)	(410)	(196)	(320)
Cashflow from oper.	1,801	1,830	2,523	2,312	2,167
Capital expenditure	(1,511)	(1,259)	(1,321)	(1,000)	(1,500)
Chg in investments	(8)	56	(14)	-	-
Other invest. cashflow	(27)	(373)	(113)	-	-
Cashflow from invest	(1,546)	(1,576)	(1,448)	(1,000)	(1,500)
Issue of equity	-	12	24	-	-
Issue/repay debt	-	-	-	-	-
Interest Paid	(323)	(377)	(343)	(313)	(313)
Inc./ (Dec.) Loan Funds	184	307	(517)	-	-
Dividends paid	(163)	(182)	(201)	(214)	(214)
Other finan. cashflow	-	-	67	-	-
Cashflow from finan.	(303)	(241)	(971)	(527)	(527)
Chg cash & cash eq	(48)	13	104	785	140
Open cash & cash eq	190	142	155	259	1,044
Clsq cash & cash eq	142	155	259	1,044	1,184
Free cashflow to firm	291	571	1,202	1,312	667

Key Ratios

Y/E (Mar)	FY18	FY19	FY20	FY21E	FY22E
PER SHARE					
EPS Rs	16.2	19.0	18.6	16.0	25.8
CEPS Rs	25.1	29.1	29.4	27.0	37.3
Book Value Rs	99.4	116.4	133.2	146.5	169.5
VALUATION					
EV / Net Sales	0.9	0.8	0.8	0.8	0.7
EV / EBITDA	9.9	8.5	8.6	9.2	6.7
P / E Ratio	14.0	11.9	12.1	14.1	8.8
P / BV Ratio	2.3	1.9	1.7	1.5	1.3
GROWTH YOY%					
Sales Growth	20.8	17.4	-1.3	-6.9	20.0
EBITDA Growth	32.4	17.3	-3.6	-9.4	35.7
Net Profit Growth	52.4	17.3	-1.4	-14.0	61.0
Gross Fixed Asset Growth	9.8	15.2	7.7	6.8	9.6
PROFITABILITY					
Gross Profit/ Net sales (%)					
EBITDA / Net Sales (%)	9.1	9.1	8.9	8.6	9.7
EBIT / Net sales (%)	6.9	7.0	6.6	6.1	7.6
NPM / Total income (%)	5.3	5.3	5.3	4.9	6.5
ROE (%)	17.6	17.6	14.9	11.5	16.3
ROCE (%)	14.8	15.6	13.2	10.7	14.6
Tax / PBT %	22.0	21.6	11.1	16.0	16.0
TURNOVER					
Net Working Cycle					
Debtors Velocity (Days)	66.1	68.3	65.4	68.0	65.0
Inventory (Days)	0.6	0.9	1.1	1.0	1.0
Creditors Velocity (Days)					
Current Ratio	3.2	2.9	3.0	3.4	3.4
Quick Ratio	3.2	2.9	3.0	3.4	3.3
LIQUIDITY					
Gross Asset Ratio	2.1	2.2	1.9	1.7	1.9
Total Asset Ratio	2.1	2.2	2.0	1.7	1.9
Net Debt-Equity Ratio	0.5	0.4	0.3	0.2	0.2
Interest Coverage	4.5	4.6	4.6	4.3	6.6
PAYOUT					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	106.7	119.0	131.0	138.9	138.9
Yield %	0.9	1.1	1.2	1.2	1.2

Source: Company, AMSEC Research;

Balance Sheet

Y/E Mar	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS :					
Share Capital	153	153	154	154	154
Reserves	7,465	8,766	10,085	11,103	12,873
T. Shareholders Funds	7,618	8,920	10,239	11,257	13,027
Minority interest	47	52	57	57	57
Non-Current Liab.					
Long term borrowings	3,953	4,142	3,686	3,686	3,686
Lease Liability	-	-	35	35	35
Deferred tax liability	445	390	302	302	302
Current Liab. & Prov.	1,915	2,656	2,515	2,345	2,778
Total Equity & Liab.	13,977	16,160	16,833	17,681	19,884
APPLICATION OF FUNDS :					
Non Current Assets					
Fixed Assets	6,258	7,268	7,483	7,642	8,257
Capital work in progress	563	40	216	216	216
Right to use	-	-	234	234	234
Goodwill	-	-	-	-	-
Noncurrent investment	1,044	1,168	1,354	1,555	1,857
Current Assets					
Current investment					
Inventories	33	53	66	56	67
Sundry debtors	4,249	5,151	4,873	4,715	5,407
Cash and bank	142	155	259	1,044	1,184
Short loans & advances	1,689	2,324	2,349	2,219	2,662
Others current assets	-	-	-	-	-
Total Assets	13,977	16,160	16,833	17,681	19,884
Net working capital	4,055	4,872	4,772	4,645	5,358
Total Gross Debt	3,953	4,142	3,686	3,686	3,686
Total Net debt	3,811	3,987	3,426	2,642	2,501
Total capital employed	12,062	13,504	14,318	15,336	17,106

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Hold/Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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