

Transport Corporation of India

Rating: ◀▶ | Target price: ▲ | EPS: ▲

CMP
Rs. 630

Target Price
Rs. 710

Rating
BUY



ONE YEAR OUTLOOK

Business & Earnings ▲

- Maintain our positive stance on TRPC as it is expected to benefit from 1) increasing automotive demand coupled with addition of new contracts driving 3PL growth (TCI Supply Chain (SCS)), 2) sustained thrust in demand for coastal shipping (18% of revenues in 1HFY22), 3) traction in multimodal transportation and 4) increasing contribution of less than truckload (LTL) in freight operations (margin accretive).
- Seaways revenue grew 25% 2Y CAGR in 2QFY22 while EBITDA margins at 43.9% expanded 890bps QoQ due to return cargo availability at Myanmar (fleeting opportunity). However, we expect margins to normalize to ~33% over medium term. Penciling in addition of new ship (higher capacity and better operating efficiencies) towards end of FY22E coupled with sustained demand and pricing to drive revenue & EBITDA CAGR of 35%/44% (F21-23E).
- SCS segment revenue grew 6% 2Y CAGR led by scale up in automotive production. Expect 1) strong automotive demand (~80% of SCS revenues), 2) addition of new clientele, 3) multimodal opportunities (3 trains to carry finished automotive) and 4) cold chain opportunities, to drive revenue & EBITDA CAGR of 21%/23% (FY21-23E).
- Expect freight division to benefit from 1) higher LTL contribution (40% by FY25 from 33% in FY21), 2) shift from unorganised sector, and 3) growth in multimodal logistics (71% revenue growth by TCI-Concor for FY21). Expect revenue and EBITDA CAGR (FY21-23E) of 15%/23% respectively.

Valuation Multiples ▲

- Valuing TRPC based on SOTP (page 2) to arrive at TP of Rs.710 (rolling over to Sept-23). Increasing our multiple in SCS (15x EVEBITDA) and Seaways (9x EVEBITDA) given strong growth prospects, and sustained margins. Despite capex (~Rs. 5.4bn through FY22-24) towards addition of ship, infrastructure and technology, RoCEs likely to improve from 12% to 18% in FY24.

FINANCIAL SUMMARY

	NET SALES (Rs. mn)	EBITDA %	PAT	EPS	P/E	EV/ EBITDA	ROE (%)
FY20	25,134	9.3%	1,257	16.4	38.4	22.2	14%
FY21	24,520	10.1%	1,452	19.0	33.2	20.4	14%
FY22E	30,455	11.5%	2,347	30.6	20.6	14.4	20%
FY23E	35,943	12.3%	2,979	38.9	16.2	11.2	21%

THREE YEAR OUTLOOK

Business & Earnings ▲

- Expect TRPC to benefit from 1) shift in volumes from 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 and EBITDA CAGR of 16%/25% respectively through FY21-25E.
- 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, presence across multimodal logistics value chain (JV with Concor for rail transportation and fleet of ships for waterway transportation) allows TRPC to provide efficient end-to-end logistics solutions. Robust demand for multimodal logistics is expected to drive coastal shipping volume growth, benefiting Seaways division. Expect addition of new ship every 12-15 months to cater to incremental demand. However, increasing competition may dilute realization and profitability (CONCOR expected to restart coastal shipping operations towards end of FY22E and other logistics service providers evaluate opportunities).
- Expect freight segment to benefit from higher contribution from LTL services. Freight segment's share of overall revenues to reduce from 47% in FY21 to ~39% by FY25E.

Valuation Multiples ▲

- Improving operating cashflows, combined with reducing debt, are expected to drive RoCE (12% in FY21 to ~18% in FY25E). Based on FY25E estimates, we see a potential upside of 42% (incl. dividends).

KEY ESTIMATES REVISION

	FY22E			FY23E		
	Old	New	Change	Old	New	Change
Sales	30,035	30,455	1%	35,613	35,943	1%
EBITDA %	10.5%	11.5%	100 bps	11.8%	12.3%	50 bps
PAT	1,980	2,347	19%	2,758	2,979	8%
EPS	25.9	30.4	17%	36.0	38.9	8%
Implied Target P/E	Before Results:		14x	After Results:		18x

All figures in Rs.Mn

OUTLOOK REVIEW 2QFY22

1 November 2021

Industry	LOGISTICS
Key Stock Data	
Bloomberg	TRPC IN
Shares o/s	77mn
Market Cap	Rs. 49bn (\$0.6bn)
52-wk High-Low	Rs. 697-222
3m ADV	Rs. 128mn (\$2mn)
Index	BSE SMALLCAP
F&O	No

Latest Shareholding (%)

	Mar 21	Jun 21	Sep 21
Promoters	66.7	66.7	66.5
Institutions	13.9	14.8	14.8
Public	19.4	18.5	18.7
Pledge			

Stock Performance (%)

	1m	3m	12m
TRPC	51.1	51.2	176.0
Sensex	-0.2	12.6	49.2

RESEARCH ANALYSTS

MUKESH SARAF
mukesh@sparkcapital.in
+91 44 4344 0041

N J KRUPASHANKAR
krupashankar@sparkcapital.in
+91 44 4344 0020

Quarterly Financial Statement

- TCI's freight segment reported revenues of Rs. 3.39bn, up 5% 2Y CAGR, 22% YoY and 18% QoQ. The segment's EBIT margins at 4.1%, was up 50bps sequentially.
- Supply Chain segment reported revenues at Rs. 2.7bn, were up 6% 2Y CAGR, 9% YoY and 26% QoQ. EBIT margins at 5.9%, were up 50bps sequentially.
- Seaways segment revenues at Rs. 1.34bn, were up 25% 2Y CAGR, 44% YoY and 17% QoQ. EBIT margins at 35.8% expanded 1025bps YoY.
- OCF for 1HFY22 was at Rs. 1.8bn while capex incurred for the period was Rs. 201mn.

Consolidated Financial Results

Rs. mn\Period	2QFY22	2QFY21	yoy Growth	1QFY22	qoq Growth	1HFY21	1HFY22	Yoy Growth
Revenue	7,365	6,122	20.3%	6,108	20.6%	9,402	13,473	43.3%
Operating expense	5,730	4,976	15.2%	4,835	18.5%	7,563	10,565	39.7%
Emp. cost	404	329	22.7%	391	3.2%	618	795	28.7%
Other expenses	243	227	7.1%	171	42.0%	353	414	17.4%
Total Expenditure	6,377	5,532	15.3%	5,397	18.2%	8,533	11,774	38.0%
EBITDA	988	590	67.5%	711	39.1%	869	1,699	95.6%
Margin %	13.4%	9.6%	378 bps	11.6%	178 bps	9.2%	12.6%	337 bps
D&A	242	198	22.2%	234	3.6%	393	475	20.9%
EBIT	747	392	90.3%	477	56.4%	476	1,224	157.4%
Other income	56	71	-21.2%	107	-47.8%	160	163	1.8%
Net Interest exp (inc)	28	64	-56.5%	41	-32.1%	133	69	-48.6%
PBT	775	399	94.0%	543	42.6%	502	1,318	162.5%
Tax provision	91	79	14.9%	59	53.4%	83	151	80.5%
Tax rate %	11.8%	19.9%	-40.8%	10.9%	83 bps	16.6%	11.4%	-519 bps
PAT (Reported)	684	320	113.6%	484	41.2%	419	1,167	178.9%
PAT (Adjusted)	684	320	113.6%	484	41.2%	419	1,167	178.9%
Adjusted PAT Margin %	9.3%	5.2%	405 bps	7.9%	136 bps	4.5%	8.7%	421 bps
Shares Outstanding	77	77		77		77	77	
EPS (Reported)	8.8	4.2	111.6%	6.3	39.9%	5.5	15.1	176.3%
EPS (Adjusted)	8.8	4.2	111.6%	6.3	39.9%	5.5	15.1	176.3%

SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		3,688	5x FY23e EV/EBITDA
TCI SCS		23,944	15x FY23e EV/EBITDA
TCI Seaways		23,042	9x FY23e EV/EBITDA
Others		58	2x FY23e EV/EBITDA
Net Cash(Net Debt)		-417	
Value from TCI	651	50,314	91.6% of Total
Value from JV	59	4,586	8.4% of Total; Adjusted for hold co discount
No. Of Shares O/s (mn)		77	
Target Price	710	54,900	

Financial Summary

Abridged Financial Statements

Rs. mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Profit & Loss										
Revenue	22,578	18,042	21,778	25,583	25,134	24,520	30,455	35,943	39,469	44,615
Gross profit	4,742	3,502	4,288	4,888	4,864	4,782	6,334	7,548	8,367	9,548
EBITDA	1,823	1,575	2,083	2,442	2,335	2,479	3,493	4,428	4,966	5,977
Depreciation	539	578	673	752	777	881	977	1,091	1,219	1,331
EBIT	1,284	996	1,410	1,690	1,558	1,598	2,516	3,336	3,746	4,646
Other Income	122	177	245	269	283	352	368	394	458	569
Interest expense	282	286	299	356	324	248	148	142	135	103
Exceptional items	0	0	40	0	99	140	0	0	0	0
PBT	1,124	888	1,316	1,603	1,419	1,562	2,736	3,589	4,069	5,112
Reported PAT (after minority interest)	851	703	1,037	1,276	1,264	1,348	2,347	2,979	3,377	4,243
Adj PAT	850	703	1,037	1,276	1,257	1,452	2,347	2,979	3,377	4,243
EPS (Rs.)	11.2	9.2	13.5	16.7	16.4	19.0	30.4	38.5	43.7	54.9
Balance Sheet										
Net Worth	4,917	5,809	6,769	8,370	9,500	10,804	12,996	15,820	19,043	23,131
Deferred Tax	320	392	443	390	263	263	263	263	263	263
Total debt	3,394	4,066	4,238	4,496	4,083	2,735	2,235	2,535	2,035	1,535
Other liabilities and provisions	819	318	535	1,290	1,263	1,375	1,504	1,759	1,923	2,163
Total Networth and liabilities	9,449	10,584	11,985	14,546	15,109	15,177	16,998	20,378	23,265	27,093
Gross Fixed assets	8,021	8,761	10,345	11,917	13,159	14,305	15,755	17,825	19,695	21,265
Net fixed assets	5,169	5,325	6,236	7,055	7,521	7,786	8,259	9,238	9,888	10,127
Capital work-in-progress	123	568	563	40	216	52	52	52	52	52
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	231	298	313	938	888	858	858	858	858	858
Cash and bank balances	124	184	130	122	178	308	172	1,193	2,543	4,838
Loans & advances and other assets	1,192	1,601	1,604	2,221	2,324	2,223	2,920	3,447	3,785	4,278
Net working capital	2,609	2,608	3,139	4,170	3,982	3,951	4,737	5,591	6,139	6,940
Total assets	9,449	10,584	11,985	14,546	15,109	15,177	16,998	20,378	23,265	27,093
Capital Employed	8,630	10,266	11,450	13,256	13,846	13,802	15,495	18,619	21,341	24,930
Invested Capital (CE - cash - CWIP)	8,383	9,514	10,757	13,094	13,452	13,442	15,271	17,374	18,747	20,039
Net debt	3,270	3,882	4,109	4,375	3,905	2,427	2,063	1,342	-507	-3,303
Cash Flows										
Cash flows from Operations (Pre-tax)	2,567	1,115	2,119	2,060	2,748	2,976	2,358	3,556	4,566	5,389
Cash flows from Operations (post-tax)	2,330	883	1,768	1,729	2,353	3,043	1,968	2,946	3,874	4,520
Capex	1,750	1,156	1,590	1,078	1,304	1,442	1,450	2,070	1,870	1,570
Free cashflows	580	-273	177	651	1,049	1,602	518	876	2,004	2,950
Free cashflows (post interest costs)	298	-560	-122	295	726	1,354	370	734	1,869	2,848
Cash flows from Investing	-988	-1,174	-1,538	-1,481	-1,346	-959	-1,450	-2,070	-1,870	-1,570
Cash flows from Financing	-1,383	370	316	-255	-964	-1,941	-654	145	-655	-655
Total cash & liquid investments	124	184	130	122	178	308	172	1,193	2,543	4,838

Financial Summary

	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Key variables (sector-specific)										
Freight Revenues (Rs. Mn)	8,400	9,223	10,311	12,096	12,478	11,508	14,039	15,162	16,223	17,359
Supply Chain Revenues (Rs. Mn)	6,249	7,374	9,126	10,189	9,250	9,376	11,517	13,821	15,203	16,723
Seaways Revenues (Rs. Mn)	1,407	1,639	2,564	3,593	3,677	3,953	5,155	7,217	8,299	10,789
Growth ratios										
Revenue	2.8%	12.9%	20.7%	17.5%	-1.8%	-2.4%	24.2%	18.0%	9.8%	13.0%
EBITDA	7.0%	17.7%	32.3%	17.2%	-4.4%	6.2%	40.9%	26.8%	12.2%	20.4%
Adj PAT	12.0%	18.0%	47.6%	23.0%	-1.0%	6.6%	74.1%	26.9%	13.4%	25.6%
Margin ratios										
Gross	21.0%	19.4%	19.7%	19.1%	19.4%	19.5%	20.8%	21.0%	21.2%	21.4%
EBITDA	8.1%	8.7%	9.6%	9.5%	9.3%	10.1%	11.5%	12.3%	12.6%	13.4%
Adj PAT	3.8%	3.9%	4.8%	5.0%	5.0%	5.9%	7.7%	8.3%	8.6%	9.5%
Performance ratios										
Pre-tax OCF/EBITDA	140.8%	70.8%	101.7%	84.3%	117.7%	120.1%	67.5%	80.3%	91.9%	90.2%
OCF/IC (%)	27.8%	9.3%	16.4%	13.2%	17.5%	22.6%	12.9%	17.0%	20.7%	22.6%
RoE (%)	16.2%	13.1%	16.5%	16.9%	14.1%	14.3%	19.7%	20.7%	19.4%	20.1%
RoCE (%)	12.1%	9.8%	12.0%	12.6%	12.1%	12.2%	16.9%	18.2%	17.5%	18.7%
RoCE (Pre-tax)	16.0%	12.4%	15.2%	15.9%	13.6%	14.1%	19.7%	21.9%	21.0%	22.5%
RoIC (Pre-tax)	15.0%	11.1%	13.9%	14.2%	11.7%	11.9%	17.5%	20.4%	20.7%	24.0%
Fixed asset turnover (x)	2.9	2.2	2.3	2.3	2.0	1.8	2.0	2.1	2.1	2.2
Total asset turnover (x)	2.3	1.8	1.9	1.9	1.7	1.6	1.9	1.9	1.8	1.8
Financial stability ratios										
Net Debt to Equity (x)	0.7	0.7	0.6	0.5	0.4	0.2	0.2	0.1	(0.0)	(0.1)
Net Debt to EBITDA (x)	1.8	2.5	2.0	1.8	1.7	1.0	0.6	0.3	(0.1)	(0.6)
Interest cover (x)	8.3	3.1	5.9	4.9	7.3	12.3	13.3	20.8	28.7	44.1
Cash conversion days	42	53	53	59	58	59	57	57	57	57
Working capital days	48	79	71	73	73	71	74	74	74	74
Valuation metrics										
Fully Diluted Shares (mn)	76.1	76.1	76.6	76.6	76.6	76.6	77.3	77.3	77.3	77.3
Market cap (Rs.mn)			48,699							
P/E (x)	56.4	68.2	46.5	37.8	38.4	33.2	20.8	16.3	14.4	11.5
P/OCF(x)	20.9	55.2	27.5	28.2	20.7	16.0	24.7	16.5	12.6	10.8
EV (Rs.mn) (ex-CWIP)	51,846	52,013	52,244	53,034	52,388	51,126	50,762	50,041	48,192	45,396
EV/ EBITDA (x)	28.4	33.0	25.1	21.7	22.4	20.6	14.5	11.3	9.7	7.6
EV/ OCF(x)	22.3	58.9	29.6	30.7	22.3	16.8	25.8	17.0	12.4	10.0
FCF Yield			0.4%	1.3%	2.2%	3.3%	1.1%	1.8%	4.1%	6.1%
Price to BV (x)	9.9	8.4	7.2	5.8	5.1	4.5	3.7	3.1	2.6	2.1
Dividend pay-out (%)	13.4%	12.0%	11.8%	10.8%	12.2%	6.4%	6.6%	5.2%	4.6%	3.6%
Dividend yield (%)			0.3%	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%

Crystal Ball Gazing

Over FY20-25E, 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-FY19	FY20-FY25E
Revenues CAGR	5%	12%	12%
Gross Margin	19%	20%	21%
EBITDA CAGR	3%	19%	21%
EBITDA margin	7.6%	8.7%	11.5%
EPS CAGR	6%	27%	27%
Total Asset Turnover (x)	2.5	2.1	1.8
Total WC days	56	66	73
Pre-tax OCF/EBITDA (%)	87%	100%	95%
Post Tax OCF as a % of IC	15%	16%	19%
Debt/EBITDA	2.1	2.5	0.5

Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY19	FY20-FY25E
RoE (%)	15.2%	15.5%	18.0%
RoCE (%)	10.9%	11.6%	15.9%
RoIC (%)	15.6%	13.9%	17.7%
Average 1 yr fwd			
PE (x)	4.3	12.8	
EV/EBITDA (x)	4.4	9.1	
Peak 1 yr fwd			
PE (x)	6.8	19.2	
EV/EBITDA (x)	6.6	12.8	

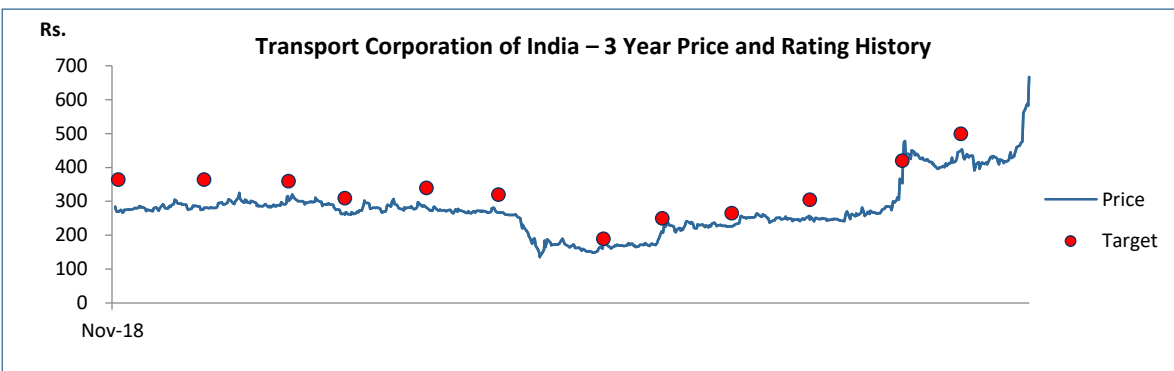
Healthy operating performance to sustain multiple

SOTP	FY25 EBITDA (Rs.mn)	EV/EBITDA (x)	EV (Rs.mn)
TCI Freight	816	5.0	4,079
TCI SCS	1,840	15.0	27,593
TCI Seaways	3,560	9.0	32,044
Others	29	2.0	58
Net Debt (Rs.mn)			-507
Mkt Cap (Rs.mn)			64,282
Standalone TP			832
JV (Transystem, TCI Concor)			67
Target Price			896

Entry = Rs. 630 @ 16x FY23E P/E + Cumulative Dividends of Rs.6/share + EPS CAGR of ~27%, implied exit multiple of 17x on FY25E P/E = Total Return of 43%

Source: Company data, Spark Capital Research

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

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
05-Aug-21	446	500	Buy
27-May-21	367	420	Buy
08-Feb-21	257	305	Buy
05-Nov-20	226	265	Buy
14-Aug-20	210	250	Buy
05-Jun-20	159	190	Buy
03-Feb-20	266	320	Buy
07-Nov-19	289	340	Buy
02-Aug-19	260	310	Buy
29-May-19	315	360	Buy
15-Feb-19	279	365	Buy
06-Nov-18	270	365	Buy
06-Aug-18	317	365	Buy
18-May-18	293	365	Buy

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