

# Transport Corporation of India

Estimate change



TP change



Rating change

**CMP: INR714**

**TP: INR860 (+20%)**

**Buy**

## Weak performance in Seaways impacts overall margin

### Outlook robust for the Freight and Supply Chain business

Bloomberg	TRPC IN
Equity Shares (m)	77
M.Cap.(INRb)/(USDb)	55.4 / 0.7
52-Week Range (INR)	858 / 529
1, 6, 12 Rel. Per (%)	-13/-5/11
12M Avg Val (INR M)	108

### Financial Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	32.6	38.3	45.0
EBITDA	4.1	4.2	5.2
Adj. PAT	2.9	2.9	3.7
EBITDA Margin (%)	12.6	10.9	11.6
Adj. EPS (INR)	37.6	38.2	47.6
EPS Gr. (%)	80.8	1.8	24.4
BV/Sh. (INR)	185.5	220.2	264.3

### Ratios

Net D:E	0.0	0.0	0.0
RoE (%)	22.0	18.5	19.4
RoCE (%)	19.6	17.7	18.8
Payout (%)	6.7	9.2	7.4

### Valuations

P/E (x)	19.0	18.7	15.0
P/BV (x)	3.8	3.2	2.7
EV/EBITDA(x)	13.1	12.8	10.0
Div. Yield (%)	0.4	0.5	0.5
FCF Yield (%)	5.4	-0.5	1.4

### Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	69.0	66.6	66.5
DII	11.8	12.0	12.7
FII	3.3	3.1	2.1
Others	15.8	18.3	18.7

FII Includes depository receipts

- TRPC reported an in line revenue of ~INR9.3b in 2QFY23 (up 13% YoY). The same in the Freight/Supply Chain division grew 14%/26% YoY. However, the high margin Seaways segment reported a decline of ~8% YoY.
- EBITDA margin fell 240bp YoY to 10.3% (est. 12.2%). The Seaways division recorded a contraction in EBIT margin, which fell to 24.5% in 2QFY23 (v/s 35.8% in 2QFY22). Lower volumes and freight rates impacted revenue and margin in the Seaways segment. PAT declined by ~4% YoY to INR723m (12% below our estimate).
- Revenue grew 21% YoY to INR18.4b in 1HFY23. EBITDA margin stood at 10.9% (v/s 11.8% in 1HFY22). APAT grew 23% YoY to INR1.5b.
- While Freight and the Supply Chain business performed well in 2QFY23, revenue and profitability in the Seaways business were impacted. TRPC is yet to acquire a new ship and is awaiting better pricing. We reduce our FY23/FY24 EPS estimate by ~11%/6% to factor in weaker growth and margin outlook in the Seaways business. **We maintain our Buy rating with a revised TP of INR860 (18x FY24E EPS).**

### The weak performance of the Seaways segment drags overall margin and profitability; Freight and Supply Chain verticals perform well

- Demand in the Seaways segment slowed down due to the monsoon, dry-docking, and lower international volumes.
- With the onset of the festive season, strong demand was seen in the Consumption and Auto sectors, which led to a healthy 14%/26% YoY growth in revenue in the Freight/Supply Chain segment. As of Sep'22, LTL constituted ~35% of the Freight business.
- In the Supply Chain segment, it recorded the highest ever quarterly revenue of INR3.6b (up 26% YoY), along with an EBIT margin of 6.3% (up 50bp).

### Highlights from the management commentary

- The proportion of LTL/FTL in the Freight division stood at 35%/65% in 1HFY23. The management expects the share of LTL to rise to 40% by FY25, which will result in a margin improvement.
- It expects EBIT margin in the Seaways segment to normalize in the 30-40% range. The cost of acquiring a ship remains elevated. The acquisition of the new ship will occur in 4QFY23

### Valuation and view

- We view TRPC as a long-term play, backed by: a) favorable government policies towards formalization, b) a diversified clientele, and c) improving share in the LTL business in the Road Freight division.
- We reduce our FY23/FY24 EPS estimate by ~11%/6% to factor in slower growth and lower margin in the Seaways business. **We maintain our Buy rating with a revised TP of INR860 (18x FY24E EPS).**

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

MotilalOswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated quarterly snapshot

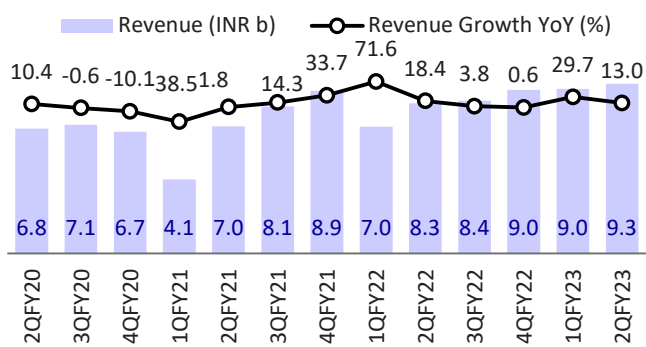
(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
<b>Net sales</b>	6,961	8,251	8,377	8,977	9,029	9,321	9,633	10,298	32,567	38,281	9,472	(2)
Change (YoY %)	71.6	18.4	3.8	0.6	29.7	13.0	15.0	14.7	16.2	17.5	14.8	
<b>EBITDA</b>	758	1,045	1,092	1,193	1,041	960	1,021	1,149	4,087	4,170	1,156	(17)
Margin (%)	10.9	12.7	13.0	13.3	11.5	10.3	10.6	11.2	12.6	10.9	12.2	
Change (YoY %)	147.3	67.9	37.0	34.6	37.4	-8.2	-6.5	-3.7	56.5	2.0	10.6	
Depreciation	247	256	255	371	289	300	310	328	1,130	1,227	310	
Interest	47	33	26	22	23	25	22	16	128	87	22	
Other Income	41	29	53	76	53	74	55	57	199	239	55	
<b>PBT before EO expense</b>	504	785	864	875	782	708	744	862	3,028	3,096	879	(19)
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0	
<b>PBT</b>	504	785	864	875	782	708	744	862	3,028	3,096	879	(19)
Tax	64	96	108	109	93	116	119	138	377	467	141	
Rate (%)	12.7	12.3	12.5	12.4	11.9	16.4	16.0	16.1	12.4	15.1	16.0	
Minority Interest	-6.0	-7.5	-7.5	-9.8	-8.4	-6.6	-7.5	-7.5	-32.1	-30.9	-7.5	
Profit & Loss of Asso. Cos	35	73	72	97	98	138	94	94	277	350	96	
<b>Reported PAT</b>	469	754	821	854	777	723	711	811	2,896	2,948	827	(12)
<b>Adjusted PAT</b>	469	754	821	854	777	723	711	811	2,896	2,948	827	(12)
Change (YoY %)	1,049	106.0	57.0	27.0	65.9	-4.1	-13.3	-5.1	80.8	1.8	9.6	
Margin (%)	6.7	9.1	9.8	9.5	8.6	7.8	7.4	7.9	8.9	7.7	8.7	

E: MOFSL estimates

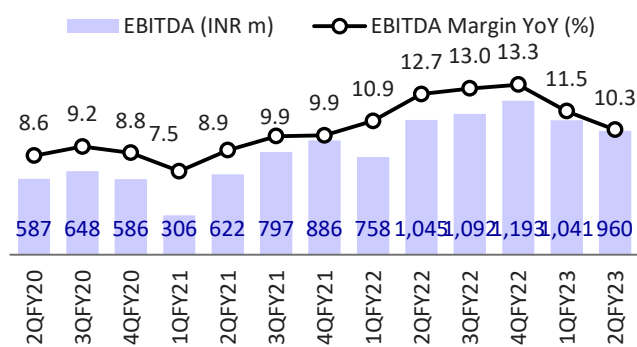
2QFY23 in charts

Exhibit 1: Revenue up 13% YoY in 2QFY23



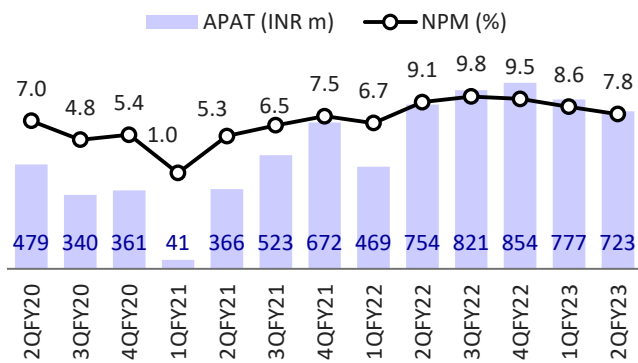
Source: Company, MOFSL

Exhibit 2: EBITDA and margin trend



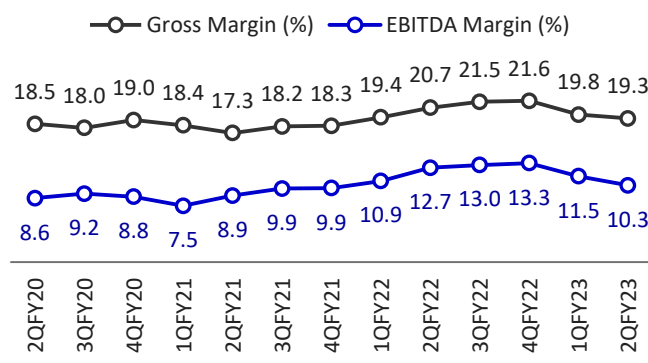
Source: Company, MOFSL

Exhibit 3: PAT declines by ~4% YoY in 2QFY23



Source: Company, MOFSL

Exhibit 4: Weak Seaways performance drags overall margin



Source: Company, MOFSL

**Exhibit 5: Segmental performance**

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
<b>Segmental revenue (INR m)</b>								
Freight	4,149	4,763	3,647	4,128	4,323	4,797	4,633	4,693
Supply chain	3,011	3,041	2,263	2,843	2,788	2,745	3,023	3,584
Seaways	1,038	1,301	1,150	1,342	1,479	1,607	1,525	1,242
Energy	3	5	15	21	6	12	16	19
<b>Net segmental revenue</b>	<b>8,201</b>	<b>9,111</b>	<b>7,074</b>	<b>8,334</b>	<b>8,596</b>	<b>9,161</b>	<b>9,196</b>	<b>9,537</b>
<b>Growth (YoY %)</b>								
Freight	0.7	10.8	32.0	58.5	15.6	4.2	0.7	13.7
Supply chain	2.5	23.9	42.0	97.6	11.9	-7.4	-9.7	26.0
Seaways	9.2	4.9	24.4	68.6	44.0	42.6	23.5	-7.5
Energy	-43.4	-43.5	-10.2	10.3	23.8	111.5	117.0	-9.6
<b>Net segmental revenue</b>	<b>14.4</b>	<b>33.9</b>	<b>70.8</b>	<b>18.0</b>	<b>4.8</b>	<b>0.6</b>	<b>30.0</b>	<b>14.4</b>
<b>Revenue share (%)</b>								
Freight	51	52	52	50	50	52	50	49
Supply chain	37	33	32	34	32	30	33	38
Seaways	13	14	16	16	17	18	17	13
Energy	0	0	0	0	0	0	0	0
<b>Total revenue share</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Segmental result (EBIT, INR m)</b>								
Freight	173	190	127	162	188	198	162	191
Supply chain	200	209	121	166	167	196	166	226
Seaways	235	306	293	480	540	477	461	304
Energy	-3	-1	10	15	-1	6	8	10
<b>Total segmental earnings</b>	<b>605</b>	<b>703</b>	<b>551</b>	<b>824</b>	<b>893</b>	<b>877</b>	<b>797</b>	<b>731</b>
<b>Segmental EBIT margin (%)</b>								
Freight	4.2	4.0	3.5	3.9	4.3	4.1	3.5	4.1
Supply chain	6.7	6.9	5.3	5.8	6.0	7.1	5.5	6.3
Seaways	22.6	23.5	25.5	35.8	36.5	29.7	30.2	24.5
Energy	-126.9	-13.2	65.3	74.0	-14.5	48.7	50.0	50.5
<b>Total</b>	<b>7.4</b>	<b>7.7</b>	<b>7.8</b>	<b>9.9</b>	<b>10.4</b>	<b>9.6</b>	<b>8.7</b>	<b>7.7</b>



## Highlights from the management commentary

### Seaways segment

- Revenue from this segment declined by ~8% YoY in 2QFY23.
- Monsoon, dry-docking of ships, and lower international volumes resulted in a YoY decline in revenue and lower margin in 2QFY23. The decline in freight rates also impacted realizations.
- EBIT margin in the Seaways segment fell to 24.5% v/s 35.8% in 2QFY22 due to non-availability of ships.
- EBITDA margin has started to normalize. The management expects margin in the 30-40% range going forward.
- Return loads from Myanmar were lesser in 2QFY23. However, the same can pick-up over the next few quarters.
- The cost of acquiring a ship remains elevated. The management said the acquisition of the new ship will occur in 4QFY23 once ship rates decrease.
- In FY24, as only one ship may undergo dry docking (repairs), the availability of ships will be much better than FY23 levels.

**Supply Chain segment**

- The onset of the festive season and improvement in semiconductor supplies led to a pick up in the Automotive sector.
- TRPC recorded the highest quarterly revenue, at INR3,584m, in this segment (up 26% YoY), with a 50bp YoY improvement in EBIT margin.
- Margin, at 5.9% in 1HFY23 v/s 5.6% in 1HFY22, remains higher than most peers.
- The management is looking to maintain the growth momentum, with a diversified customer base and service offerings.

**Freight segment**

- The proportion of LTL/FTL in the Freight division stood at 35%/65% in 1HFY23. The management expects the share of LTL to rise to 40% by FY25.
- Revenue grew 20% YoY in 1HFY23, along with a marginal improvement in margin. EBIT margin stood at 3.8% in 1HFY23 v/s 3.7% in 1HFY22.
- RoCE remains above 20%, with an asset-light model and stable margin.

**Capex**

- Capex guidance for FY23 has been pegged at INR1.2-1.5b (excluding the cost of a new ship). The same will be incurred on warehouses, containers, and rakes.
- TRPC plans to acquire its seventh ship by the end of FY23 as the acquisition cost of a ship remains elevated. The new ship will have a capacity of ~35,000t v/s an average capacity of ~28,000t for its current fleet.

**Other highlights**

- Change in the modal mix of Road, Rail, Air, and Seaways, with a higher contribution from Railways and Seaways will help bring Logistics cost, as a percentage of GDP, on par with global standards of 8-10%.
- As more organizations become a part of the digital network, the share of organized players will improve significantly.
- The management believes that the launch of National Logistics Policy (NLP) will aid in reducing Logistics costs and lead to the formalization of the industry.
- Mandatory e-voicing from Oct'22, changing consumer trends, and infrastructure development will help organized players garner a higher market share.
- The management maintained a conservative approach in its revenue and PAT growth guidance (10-15%) in FY23. As margin in the Seaways segment starts to normalize, it expects EBIT margin to normalize in the 30-40% range.

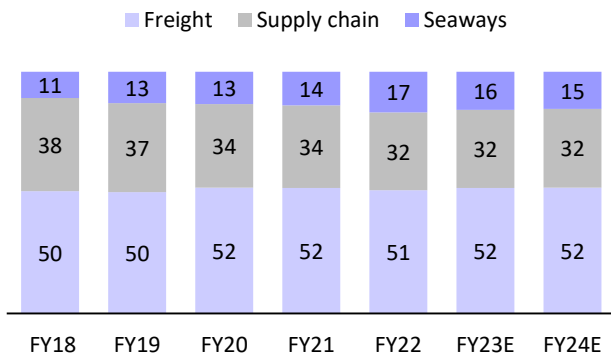
**Exhibit 6: Revisions to our forecast**

(INR m)	FY23E			FY24E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net Sales	38,281	37,991	0.8	45,000	44,641	0.8
EBITDA	4,170	4,548	-8.3	5,212	5,402	-3.5
EBITDA margin (%)	10.9	12.0	-107.8	11.6	12.1	-52
PAT	2,948	3,303	-10.8	3,668	3,919	-6.4
<b>EPS (INR)</b>	<b>38.2</b>	<b>42.9</b>	<b>-10.8</b>	<b>47.6</b>	<b>50.8</b>	<b>-6.4</b>

Source: Company, MOFSL

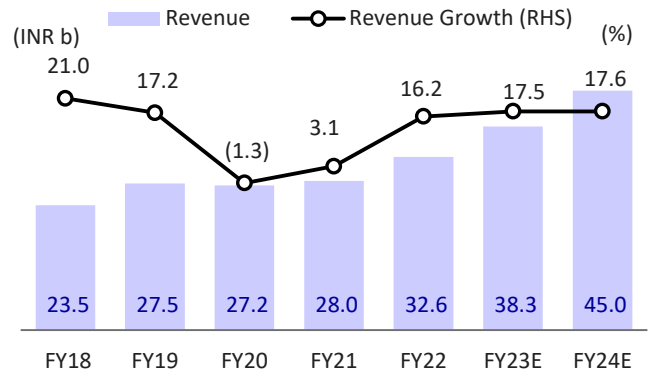
## Story in charts

**Exhibit 7: Freight and 3PL to dominate**



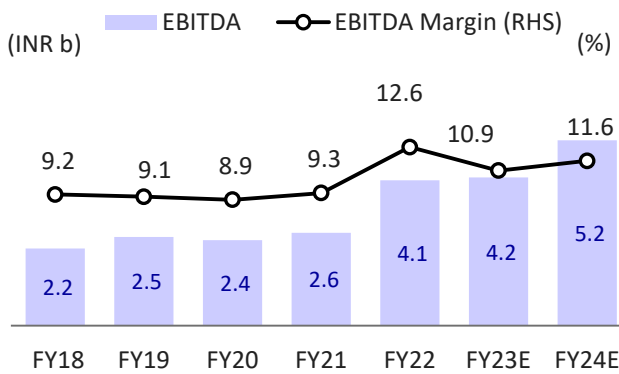
Source: Company, MOFSL

**Exhibit 8: Growth in revenue to remain strong**



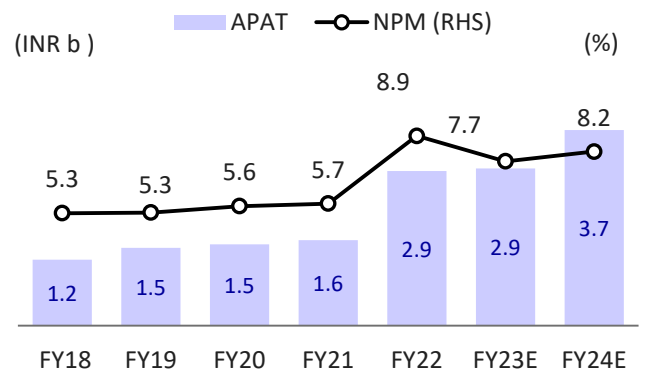
Source: Company, MOFSL

**Exhibit 9: Margin to remain stable**



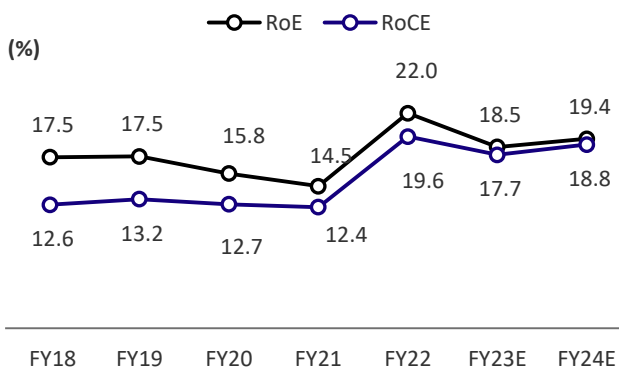
Source: Company, MOFSL

**Exhibit 10: Strong operating performance to drive PAT**



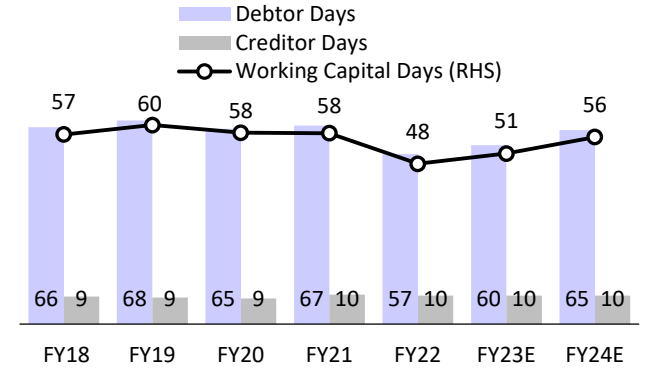
Source: Company, MOFSL

**Exhibit 11: Return ratios remain elevated**



Source: Company, MOFSL

**Exhibit 12: Comfortable working capital position**



Source: Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>23,499</b>	<b>27,536</b>	<b>27,178</b>	<b>28,024</b>	<b>32,567</b>	<b>38,281</b>	<b>45,000</b>
Change (%)	21.0	17.2	-1.3	3.1	16.2	17.5	17.6
Gross Margin (%)	18.9	18.2	18.5	18.0	20.9	19.2	19.8
<b>EBITDA</b>	<b>2,165</b>	<b>2,495</b>	<b>2,405</b>	<b>2,612</b>	<b>4,087</b>	<b>4,170</b>	<b>5,212</b>
Margin (%)	9.2	9.1	8.9	9.3	12.6	10.9	11.6
Depreciation	686	774	825	928	1,130	1,227	1,441
<b>EBIT</b>	<b>1,478</b>	<b>1,721</b>	<b>1,580</b>	<b>1,684</b>	<b>2,957</b>	<b>2,944</b>	<b>3,771</b>
Int. and Finance Charges	322	374	343	267	128	87	67
Other Income	144	195	201	255	199	239	287
<b>PBT</b>	<b>1,301</b>	<b>1,542</b>	<b>1,438</b>	<b>1,672</b>	<b>3,028</b>	<b>3,096</b>	<b>3,991</b>
Tax	287	333	159	238	377	467	718
Effective Tax Rate (%)	22.0	21.6	11.1	14.3	12.4	15.1	18.0
<b>PAT before MI, Associates, and EO Items</b>	<b>1,014</b>	<b>1,209</b>	<b>1,279</b>	<b>1,434</b>	<b>2,652</b>	<b>2,629</b>	<b>3,273</b>
Share of profit/(loss) of Associates and JVs	224	251	252	201	277	350	425
Minority Interest	0	0	-8	-33	-32	-31	-30
Extraordinary Items	0	7	99	131	0	0	0
<b>Reported PAT</b>	<b>1,238</b>	<b>1,453</b>	<b>1,424</b>	<b>1,471</b>	<b>2,896</b>	<b>2,948</b>	<b>3,668</b>
<b>Adjusted PAT</b>	<b>1,238</b>	<b>1,460</b>	<b>1,522</b>	<b>1,602</b>	<b>2,896</b>	<b>2,948</b>	<b>3,668</b>
Change (%)	52.4	17.9	4.3	5.2	80.8	1.8	24.4
Margin (%)	5.3	5.3	5.6	5.7	8.9	7.7	8.2

### Consolidated Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	153	153	154	154	155	155	155
Total Reserves	7,465	8,766	10,085	11,543	14,148	16,826	20,224
<b>Net Worth</b>	<b>7,618</b>	<b>8,920</b>	<b>10,239</b>	<b>11,697</b>	<b>14,303</b>	<b>16,981</b>	<b>20,379</b>
Minority Interest	47	52	57	86	274	274	274
Deferred Tax Liabilities	445	390	302	273	276	276	276
Total Loans	4,396	4,703	4,186	2,767	1,039	694	521
<b>Capital Employed</b>	<b>12,505</b>	<b>14,065</b>	<b>14,784</b>	<b>14,823</b>	<b>15,892</b>	<b>18,224</b>	<b>21,450</b>
Gross Block	7,873	9,503	10,595	10,684	11,646	15,036	17,036
Less: Accum. Deprn.	1,615	2,235	3,111	3,275	4,405	6,272	7,713
<b>Net Fixed Assets</b>	<b>6,258</b>	<b>7,268</b>	<b>7,483</b>	<b>7,409</b>	<b>7,241</b>	<b>8,764</b>	<b>9,323</b>
Capital WIP	563	40	450	690	846	796	766
<b>Total Investments</b>	<b>1,044</b>	<b>1,168</b>	<b>1,354</b>	<b>1,500</b>	<b>1,927</b>	<b>1,927</b>	<b>1,927</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>6,113</b>	<b>7,683</b>	<b>7,547</b>	<b>7,790</b>	<b>8,257</b>	<b>9,417</b>	<b>12,583</b>
Inventory	33	53	66	71	85	105	123
Account Receivables	4,249	5,151	4,873	5,110	5,083	6,293	8,014
Cash and Bank Balances	142	155	259	395	745	327	1,281
Cash	127	101	132	341	679	261	1,216
Bank Balance	15	55	128	55	66	66	66
Loans and Advances	235	268	268	124	12	15	17
Others	1,453	2,056	2,081	2,089	2,333	2,678	3,148
<b>Current Liab. and Prov.</b>	<b>1,472</b>	<b>2,095</b>	<b>2,050</b>	<b>2,565</b>	<b>2,379</b>	<b>2,679</b>	<b>3,150</b>
Account Payables	597	674	639	759	851	1,001	1,176
Other Current Liabilities	820	1,355	1,309	1,719	1,276	1,383	1,626
Provisions	55	65	102	86	251	296	347
<b>Net Current Assets</b>	<b>4,641</b>	<b>5,589</b>	<b>5,497</b>	<b>5,225</b>	<b>5,878</b>	<b>6,738</b>	<b>9,434</b>
<b>Application of Funds</b>	<b>12,505</b>	<b>14,065</b>	<b>14,784</b>	<b>14,823</b>	<b>15,891</b>	<b>18,224</b>	<b>21,450</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	16.1	18.9	19.7	20.8	37.6	38.2	47.6
EPS growth (%)	52.4	17.9	4.3	5.2	80.8	1.8	24.4
Cash EPS	25.0	29.0	30.4	32.8	52.2	54.1	66.3
BV/Share	98.8	115.7	132.8	151.7	185.5	220.2	264.3
DPS	1.6	1.8	2.0	2.5	2.5	3.5	3.5
Payout (Incl. Div. Tax, %)	13.2	12.6	14.1	13.1	6.7	9.2	7.4
<b>Valuation (x)</b>							
P/E ratio	44.5	37.7	36.2	34.4	19.0	18.7	15.0
Cash P/E ratio	28.6	24.6	23.5	21.8	13.7	13.2	10.8
EV/EBITDA ratio	26.9	23.4	24.0	21.4	13.1	12.8	10.0
EV/Sales ratio	2.5	2.1	2.1	2.0	1.6	1.4	1.2
P/BV ratio	7.2	6.2	5.4	4.7	3.8	3.2	2.7
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.4	0.5	0.5
<b>Return Ratios (%)</b>							
RoE	17.5	17.5	15.8	14.5	22.0	18.5	19.4
RoCE	12.6	13.2	12.7	12.4	19.6	17.7	18.8
RoIC	11.4	11.5	11.1	11.6	21.0	18.1	18.9
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	3.3	3.2	2.7	2.6	2.9	2.8	2.8
Asset Turnover (x)	1.9	2.0	1.8	1.9	2.0	2.1	2.1
Inventory (Days)	1	1	1	1	1	1	1
Debtors (Days)	66	68	65	67	57	60	65
Creditors (Days)	9	9	9	10	10	10	10
<b>Leverage Ratio (x)</b>							
Net Debt/Equity ratio	0.6	0.5	0.4	0.2	0.0	0.0	-0.1

### Consolidated Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,525	1,786	1,591	1,743	3,305	3,096	3,991
Depreciation	686	774	825	928	1,130	1,227	1,441
Direct Taxes Paid	-368	-342	-410	52	-494	-467	-718
(Inc.)/Dec. in WC	-576	-758	181	232	-163	-1,263	-1,745
Other Items	301	331	242	93	-98	-152	-220
<b>CF from Operations</b>	<b>1,568</b>	<b>1,791</b>	<b>2,428</b>	<b>3,047</b>	<b>3,680</b>	<b>2,440</b>	<b>2,749</b>
(Inc.)/Dec. in FA	-1,511	-1,259	-1,321	-1,241	-707	-2,700	-1,970
<b>Free Cash Flow</b>	<b>57</b>	<b>532</b>	<b>1,108</b>	<b>1,807</b>	<b>2,973</b>	<b>-260</b>	<b>779</b>
Change in Investments	-8	-49	-55	-17	-28	0	0
Others	209	-268	22	196	-27	175	231
<b>CF from Investments</b>	<b>-1,309</b>	<b>-1,576</b>	<b>-1,353</b>	<b>-1,062</b>	<b>-762</b>	<b>-2,525</b>	<b>-1,739</b>
Change in Equity	0	12	24	40	34	0	0
Inc./(Dec.) in Debt	184	307	-523	-1,419	-2,148	-345	-173
Dividends Paid	-163	-182	-201	-96	-410	-270	-270
Others	-323	-338	-343	-302	-56	282	387
<b>CF from Fin. Activity</b>	<b>-303</b>	<b>-202</b>	<b>-1,044</b>	<b>-1,776</b>	<b>-2,580</b>	<b>-333</b>	<b>-56</b>
<b>Inc./(Dec.) in Cash</b>	<b>-44</b>	<b>13</b>	<b>31</b>	<b>209</b>	<b>338</b>	<b>-418</b>	<b>954</b>
Opening Balance	187	142	101	132	341	679	261
<b>Closing Balance</b>	<b>142</b>	<b>155</b>	<b>132</b>	<b>341</b>	<b>679</b>	<b>261</b>	<b>1,216</b>

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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