

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	715
12 month price target (INR)	875
Market cap (INR bn/USD bn)	55/0.7
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

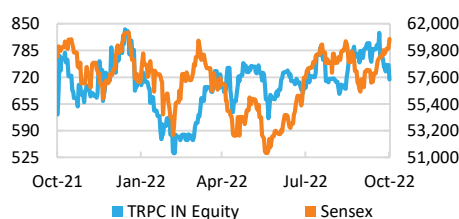
	Above	In line	Below
Profit			●
Margins			●
Revenue Growth	●		
Overall			●

FINANCIALS

(INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Revenue	28,024	32,567	37,521	42,520
EBITDA	2,612	4,087	4,268	5,017
Adjusted profit	1,586	2,928	3,247	3,842
Diluted EPS (INR)	20.1	37.1	41.2	48.7
EPS growth (%)	1.5	84.6	10.9	18.3
RoAE (%)	13.7	22.5	20.9	20.9
P/E (x)	35.6	19.3	17.4	14.7
EV/EBITDA (x)	22.6	14.0	13.3	11.1
Dividend yield (%)	0.3	0.6	0.6	0.7

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

A modest H1; second half to be better

Transport Corporation of India (TCI) registered a mixed set of Q2FY23 numbers. Overall profitability was marred as seaway margins struggled to stay afloat despite healthy growth in freight and SCM segments. Extended dry-dock, lower volumes from international business and dip in freight rates were a drag on the seaway business. Nonetheless, management remains assertive of a better H2.

We reckon that TCI's transition towards a higher LTL mix, along with strong margins in the supply chain business, should largely offset any margin headwinds from seaways. More so, at one-year forward PE of 16x, TCI provides valuation comfort. Maintain 'BUY' with an unchanged TP of INR875, implying 20x 1Y forward earnings.

Q2FY23 delivered on top-line; missed margins

TCI's Q2FY23 performance in Freight and SCM segment was largely curtailed by the seaway segment, which led to an overall miss on the earnings front. Standalone revenue grew 15.5% YoY and 5% QoQ. EBITDA margins came in at 10.8% vs. 12.3% in Q1FY23 and 13.4% in Q2FY22. As a result, PAT dropped 25% QoQ and 16% YoY. On the segmental front, freight segment witnessed 5% QoQ uptick in revenue led by high volumes and stable freight rates. Supply chain segment, which posted an all-time-high revenue, benefitting from a comeback in auto demand. Going ahead, demand will likely remain stable post the festive season.

Business-mix change to provide re-rating impetus

Our investment rationale for TCI is based on its underlying business mix improving over the next three–four years. The company is targeting a higher-margin LTL mix of 40% in the freight division. The supply chain division is part of the fast-growing 3PL category, and is expected to log a 15%-plus CAGR over the next five–seven years. TCI also plans to add capacity in its seaways division (now pushed to FY23E), which should aid margin expansion and RoCE over medium term. However, a greater-than expected drop in the seaways division's earnings could be a dampener for FY23E.

Outlook and valuation: Attractive prospects; retain 'BUY'

Despite a strong rally, the stock, at one-year forward PE of 16x, provides valuation comfort. TCI has been one of the better performers in the Indian logistics sector and has thus seen a re-rating over the past two years. We argue there is more value though and hence retain 'BUY/SO' with an unchanged TP of INR875 (20x 1Y forward).

Financials

Year to March	Q2FY23	Q2FY22	% Change	Q1FY23	% Change
Net Revenue	8,509	7,365	15.5	8,072	5.4
EBITDA	916	988	(7.3)	992	(7.6)
Adjusted Profit	574	684	(16.0)	766	(25.1)
Diluted EPS (INR)	7.5	8.9	(16.0)	10.0	(25.1)

TRANSPORT CORPORATION

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Total operating income	28,024	32,567	37,521	42,520
Cost of Goods Sold	22,972	25,766	29,949	33,782
Employee costs	1,455	1,700	1,983	2,233
Other expenses	984	1,013	1,321	1,488
EBITDA	2,612	4,087	4,268	5,017
Depreciation	928	1,130	1,217	1,367
Less: Interest expense	267	128	93	114
Add: Other income	255	199	404	464
Profit before tax	1,672	3,028	3,362	3,999
Prov for tax	238	377	420	492
Less: Other adjustment	71	277	304	335
Reported profit	1,504	2,928	3,247	3,842
Less: Excp.item (net)	82	0	0	0
Adjusted profit	1,586	2,928	3,247	3,842
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	20	37	41	49
DPS (INR)	2.3	4.1	4.3	5.2
Tax rate (%)	14.3	12.4	12.5	12.3

Important Ratios (%)

Year to March	FY21A	FY22A	FY23E	FY24E
EBITDA margin (%)	9.3	12.6	11.4	11.8
PBT growth (% YoY)	16.2	81.1	11.0	18.9
Net profit margin (%)	5.7	9.0	8.7	9.0
Revenue growth (% YoY)	3.1	16.2	15.2	13.3
EBITDA growth (% YoY)	8.6	56.5	4.4	17.6
Asset turnover (X)	1.9	2.1	2.2	2.1
Adj. profit growth (%)	3.6	84.6	10.9	18.3
EBIT margin (%)	6.0	9.1	8.1	8.6

Assumptions (%)

Year to March	FY21A	FY22A	FY23E	FY24E
GDP (YoY %)	(6.6)	8.7	6.4	5.8
Repo rate (%)	4.0	4.0	6.5	5.5
USD/INR (average)	74.2	74.5	81.0	81.0
Freight margin (%)	4.1	4.5	4.6	4.6
SCM margin (%)	10.7	10.7	11.4	11.7
Real. per DWT (INR)	1,07,635	90,000	90,000	0
Freight div. (% YoY)	(7.8)	19.2	12.4	0
SCM growth(% YoY)	1.1	7.2	22.0	0
Seaways (% YoY)	7.2	44.4	7.5	0

Valuation Metrics

Year to March	FY21A	FY22A	FY23E	FY24E
Diluted P/E (x)	35.6	19.3	17.4	14.7
Price/BV (x)	4.8	3.9	3.3	2.8
EV/EBITDA (x)	22.6	14.0	13.3	11.1
Dividend yield (%)	0.3	0.6	0.6	0.7

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Share capital	154	155	155	155
Reserves	11,543	14,148	16,681	19,700
Shareholders funds	11,697	14,303	16,836	19,855
Minority interest	86	274	274	274
Borrowings	2,555	962	1,173	1,006
Trade payables	759	851	927	1,052
Other liab & prov	2,272	1,586	1,162	1,162
Total liabilities	17,388	18,041	20,390	23,368
Net block	8,015	7,983	8,711	9,782
Intangible assets	31	30	6	6
Capital WIP	52	73	73	73
Total fixed assets	8,099	8,087	8,790	9,861
Non current inv	1,500	1,780	1,780	1,780
Cash/cash equivalent	395	745	1,150	2,227
Sundry debtors	5,110	5,083	6,198	7,022
Loans & advances	124	13	13	13
Other assets	1,608	2,166	2,128	2,134
Total assets	17,388	18,041	20,390	23,368

Free Cash Flow (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Reported profit	1,504	2,928	3,247	3,842
Add: Depreciation	928	1,130	1,217	1,367
Interest (net of tax)	179	86	62	77
Others	255	(302)	(678)	(761)
Changes in WC	181	(163)	(2,044)	(705)
Operating cash flow	3,047	3,680	1,804	3,820
Less: Capex	(1,241)	(707)	(1,921)	(2,438)
Free cash flow	1,807	2,973	(116)	1,383

Key Ratios

Year to March	FY21A	FY22A	FY23E	FY24E
RoE (%)	13.7	22.5	20.9	20.9
RoCE (%)	13.7	21.1	20.4	20.9
Receivable days	65	57	55	57
Payable days	9	9	9	8
cash conversion cycle	57	49	47	49
Working cap (% sales)	14.6	15.0	17.4	17.0
Gross debt/equity (x)	0.2	0.1	0.1	0
Net debt/equity (x)	0.2	0	0	(0.1)
Interest coverage (x)	6.3	23.0	32.7	31.9

Valuation Drivers

Year to March	FY21A	FY22A	FY23E	FY24E
EPS growth (%)	1.5	84.6	10.9	18.3
RoE (%)	13.7	22.5	20.9	20.9
EBITDA growth (%)	8.6	56.5	4.4	17.6
Payout ratio (%)	11.9	11.0	10.5	10.6

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Exhibit 1: Quarterly financial snapshot

INR mn	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	FY22	FY23E	FY24E
Revenues	8,509	7,365	15.5	8,072	5.4	29,046	33,472	37,864
Operating expenses	6,799	5,730	18.7	6,374	6.7	22,552	26,253	29,531
Employee Benefit Expenses	475	404	17.6	453	4.9	1,638	1,912	2,151
Others	319	243	31.1	254	25.5	952	1,250	1,406
Total expenditure	7,593	6,377	19.1	7,080	7.2	25,141	29,415	33,088
EBITDA	916	988	(7.3)	992	(7.6)	3,904	4,057	4,775
Depreciation	289	242	19.6	278	3.9	1,076	1,162	1,313
EBIT	627	747	(16.0)	713	(12.1)	2,829	2,895	3,462
Interest	21	28	(23.8)	19	12.8	109	80	99
Other income	76	56	36.0	159	(52.3)	311	404	464
Add: Exceptional items	0	0	NA	0	N/A	0	0	0
Profit Before Tax	682	775	(12.0)	854	(20.2)	3,031	3,219	3,827
Less: Provision for Tax	108	91	18.0	88	22.7	357	377	440
Reported Profit	574	684	(16.0)	766	(25.1)	2,674	2,842	3,387
Adjusted Profit	574	684	(16.0)	766	(25.1)	2,674	2,842	3,387
Adjusted Diluted EPS	7.5	8.9	(16.0)	10.0	(25.1)	34.8	37.0	44.1
P/E (x)						19.3	17.4	14.7
As % of net revenues								
Operating expenses	79.9	77.8		79.0		77.6	78.4	78.0
Staff expenses	5.6	5.5		5.6		5.6	5.7	5.7
Other expenses	3.7	3.3		3.1		3.3	3.7	3.7
EBITDA	10.8	13.4		12.3		13.4	12.1	12.6
Net profit	6.7	9.3		9.5		9.2	8.5	8.9

Source: Company, Nuvama Research

Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 12 million square feet of warehousing space

Investment Theme

We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for ~15% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential.

Key Risks

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis. Any downfall in trucking freight rates, particularly due to aggressive pricing by PE backed transporters can impact the profitability of TCI adversely

Additional Data

Management

CEO	Vineet Agarwal (MD)
CFO	Ashish Tiwari
COO	
Other	
Auditor	Brahmayya & Co.

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	7.41	Sundaram Asset	0.64
LIC Mutual Fund	0.97	JP Morgan Chase	0.49
TATA AMC	0.87	BlackRock	0.07
Dimensional Fun	0.83	Wisdom Tree Inv	0.06
IDFC Mutual Fun	0.83	American Centur	0.03

*Latest public data

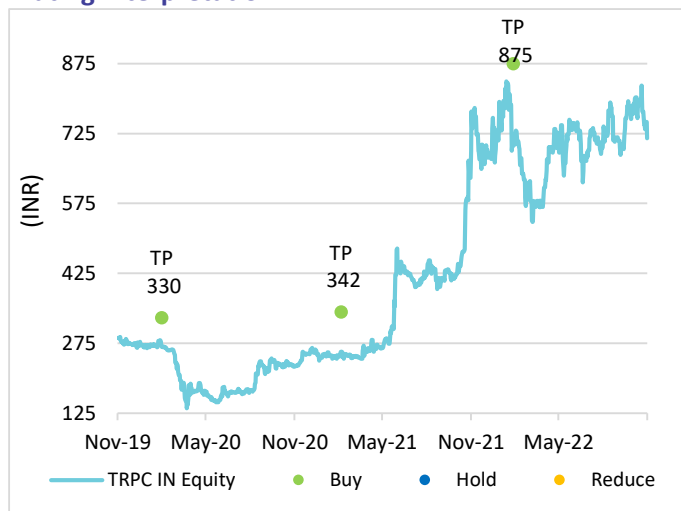
Recent Company Research

Date	Title	Price	Reco
04-Aug-22	All-time high revenue; margins modest; <i>Result Update</i>	705	Buy
30-May-22	A steady end to FY22; outlook robust; <i>Result Update</i>	745	Buy
27-Jan-22	In a new zone; <i>Result Update</i>	730	Buy

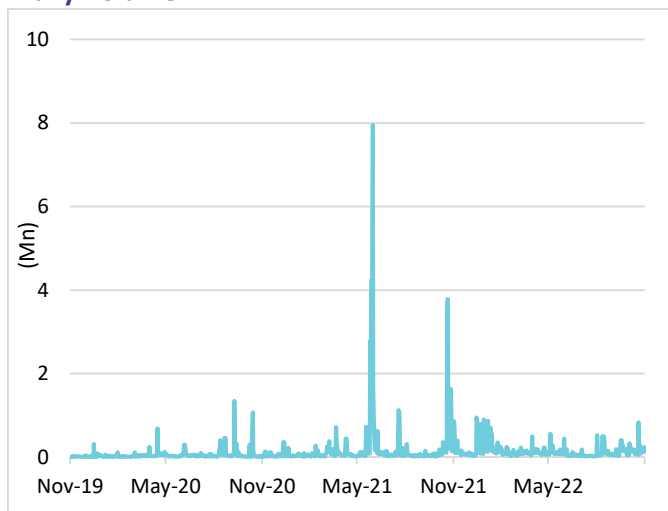
Recent Sector Research

Date	Name of Co./Sector	Title
28-Oct-22	Blue Dart Express	Margin drives miss; seems transitory; <i>Result Update</i>
28-Oct-22	VRL Logistics	Test (Eps change 0); <i>Result Update</i>
12-Oct-22	Blue Dart Express	Packing a stronger punch; <i>Company Update</i>

Rating Interpretation



Daily Volume



Rating Distribution: Nuvama Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	199	56	18	275
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	243	44	4	291

*2 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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