

Container Train Operator | Q2FY24 Result Update

Strengthening its core

- TCI displayed a decent set of numbers in Q2FY24, revenue grew 4.6% QoQ to Rs. 9.9 bn led by strong growth in seaways business, partially offset by muted growth from freight division. EBITDA remained flat QoQ with 50 bps contraction in margin to 10.1 % due to fall in margin of seaways division.
- Management sounded strong growth in supply chain business while expect Seaways business to be flattish in FY24 due to delay in purchase of ship. 2HFY24 would be better than 1H.
- We see TCI as a long-term play, backed by: a) increasing demand for integrated logistics service providers b) Strong presence in the high growth 3PL segment and c) improving share in the LTL business in the Road Freight division. At CMP, stock is trading at 16.5/14.6x at FY24E/25E EPS. We value the stock Rs.1046 (16x FY26E EPS). Maintain BUY.

Freight division – Improving mix

In Q2FY24, FTL: LTL mix stood at 64:36 and management is optimistic about increasing LTL's share to 40% by FY25. TCI's primary objective is to augment the PTL segment, given its superior profit margins in comparison to FTL. Expect Freight division to see strong revenue growth in 3Q led by festive season demand and revival in rural demand

Supply chain – On a strong growth trajectory

During Q2FY24, the Supply Chain division experienced a 7.6% growth, The supply chain division is primarily focused on third-party logistics of auto sector, contributing 80% of total division revenue. TCI aims to be a significant player in warehousing of apparel, retail, e-commerce and FMCG. It started a cold-chain business for perishable cargo in pharma and food.

Seaways division – Near term constraint long term positive

Management guided for flattish growth FY24, for Seaways division due to a delay in the acquisition of a second-hand ship. However, the management is actively working towards the inclusion of a vessel by Q4FY24. Further the company placed order for 2 more ships which will be added in FY26 end.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	9,935	9,321	6.6	9,498	4.6
Total Expense	8,931	8,373	6.7	8,490	5.2
EBITDA	1,004	948	6.0	1,008	(0.4)
Depreciation	311	300	3.6	308	1.0
EBIT	693	647	7.1	700	(1.0)
Other Income	113	74	53.3	85	32.9
Interest	34	25	33.9	23	47.8
EBT	772	696	11.0	762	1.3
Tax	96	116	(17.2)	104	(7.7)
RPAT	870	711	22.3	823	5.7
APAT	870	711	22.3	823	5.7
			(bps)		(bps)
Gross Margin (%)	15.8	15.6	25	16.5	(63)
EBITDA Margin (%)	10.1	10.2	(6)	10.6	(51)
NPM (%)	8.8	7.6	112	8.7	9
Tax Rate (%)	12.4	16.7	(423)	13.6	(121)
EBIT Margin (%)	7.0	6.9	3	7.4	(39)

CMP	Rs 819
Target / Upside	Rs 1,046 / 28%
NIFTY	19,080

Scrip Details

Equity / FV	Rs 155mn / Rs 2
Market Cap	Rs 64bn
	USD 773.3mn
52-week High/Low	Rs 868/ 555
Avg. Volume (no)	45,256
Bloom Code	TRPC IN

Price Performance	1M	3M	12M
Absolute (%)	4	8	15
Rel to NIFTY (%)	4	9	5

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	69.0	68.9	68.9
MF/Banks/FIs	11.0	12.6	12.6
FIs	3.0	2.7	2.7
Public / Others	17.0	15.8	15.8

Valuation (x)

	FY24E	FY25E	FY26E
P/E	17.2	15.2	12.7
EV/EBITDA	14.3	11.4	9.5
ROE (%)	19.8	18.7	18.8
RoACE (%)	15.8	14.8	15.0

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	40.5	46.7	54.4
EBITDA	4.4	5.4	6.3
PAT	3.7	4.2	5.0
EPS (Rs.)	47.7	53.7	64.4

VP - Research: Abhishek Jain
Tel: +9122 40969739
E-mail: abhishekj@dolatcapital.com

Associate: Hemesh Desai
Tel: +9122 40969770
E-mail: hemeshd@dolatcapital.com

Exhibit 1: Actual VS dart estimates

Particulars (`mn)	Actual	Dart Estimates	Variance (%)
Revenue	9,935	9,973	(0.4)
EBIDTA	1,004	1,058	(5.1)
EBIDTA Margin (%)	10.1	10.6	(50.71)bps
APAT	878	842	4.3

Exhibit 2: Change in estimates

Particulars (Rs.mn)	FY24E			FY25E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	40,538	41,843	(3.1)	46,695	48,170	(3.1)
EBITDA	4,358	4,603	(5.3)	5,418	5,589	(3.1)
EBITDA margin (%)	10.8	11.0	(25)bps	11.6	11.6	(0)bps
APAT	3,703	3,692	0.3	4,168	4,190	(0.5)
EPS	48.6	48.4	0.3	54.6	54.0	1.1

Improving mix in freight division - FTL vs LTL proportion

- The share of LTL/FTL in the Freight division stood at 36%/64% in Q2FY24. TCI is focusing more towards increasing the LTL proportion as LTL has higher margin than FTL. TCI Freight has 25 strategically located hubs across India and plans to add another 50 by the end of FY24.
- Consumer demand dynamics have changed in recent years where speed of delivery is paramount. This makes integrated and tech-driven player like TRPC a preferred choice for customers
- We anticipate a sustained surge in revenue growth in the coming times because, at present, the swiftest and most cost-effective option for 70-80% of freight movements in India involves small and medium quantity goods, which rely on road transportation.
- In Freight division, company has Asset light business model. Currently, it has +6500 trucks under operation out of which the company owns 120 trucks. This asset light model provides company the flexibility in operation and helps in higher return generation

Seaways division – Near term constraint long term positive

- In FY24, the Seaways division is projected to exhibit relatively stagnant growth primarily due to the postponed acquisition of a secondhand ship. However, the management is actively working towards the inclusion of a vessel by Q4FY24, which is expected to boost volume growth beginning in FY25. Presently, all six ships are operational, but the EBIT margin is expected to further decline owing to the escalating fuel prices.
- The revenue share originating from the Seaways division has maintained its consistency, hovering around 13.1% in Q1FY24 and slightly increasing to 13.5% in Q2FY24. However, during the same timeframe, the EBIT margin for this division has seen sharp fall, from 29.2% in Q1FY24 to 22.9% in Q2FY24.
- Transport Corporation of India has entered into an agreement to buy two new ships of 7,300 MT each for a consideration of Rs. 2.7 bn. Seaways business is a high margin business and contributes to 15% of total revenue and 40% on overall EBIT, adding of above two vessels will result in capacity addition of over 20% from FY26. Given its optimal utilization of the existing ones this purchase will assist in margin improvement in long to medium term.

Exhibit 3: Summary of quarterly performance

Particulars	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	FY24E
Net sales (Rs.mn)	8,251	8,377	8,977	9,029	9,321	9,667	9,793	9,498	9,935	40,538
% YoY	18.4	3.8	0.6	29.7	13.0	15.4	9.1	5.2	6.6	7.2
% QoQ	18.5	1.5	7.2	0.6	3.2	3.7	1.3	-3.0	4.6	
Employee cost	412	555	637	652	661	739	785	883	896	2,230
% sales	5.0	5.2	4.9	5.2	5.3	5.1	5.2	5.8	5.7	5.5
Operating cost	6,795	6,848	7,345	7,518	7,869	8,030	8,203	7,935	8,363	33,950
% sales	82.3	81.8	81.8	83.3	84.4	83.1	83.8	83.5	84.2	83.8
EBITDA (Rs.mn)	1,045	1,092	1,193	1,040	960	1,144	1,081	1,008	1,004	4,358
% YoY	81.6	57.6	38.7	37.3	-8.2	4.8	-9.4	-3.1	4.6	2.8
Margin (%)	12.7	13.0	13.3	11.5	10.3	11.8	11.0	10.6	10.1	10.8

Source: DART, Company

Supply Chain –Medium to long term growth driver

- Presently, the company oversees a vast warehousing space spanning 14 mn. Sq. ft. Notably, the Automotive sector is the predominant contributor, accounting for 80% of the revenues in the supply chain division. The upturn in the automotive sector, with a particular focus on the EV segment and the resurgence of the 2W market, has significantly fueled the growth of the supply chain division. However, the company has strategic intentions to curtail the automotive sector's contribution from 80% to 70% within the next 3-4 years. This move aims to enhance diversification and mitigate risks in the division.

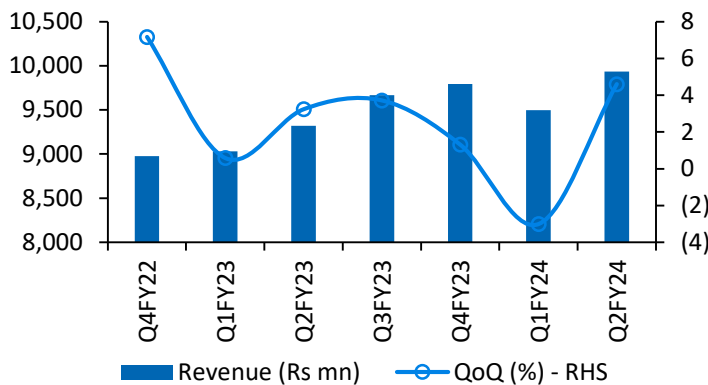
Earnings call KTAs

- Outlook:** First half of the year is always weaker compared to the second half of the year for the logistics industry. Q3 & Q4 generates to approximately 55% of the total yearly revenue. Long term trends are still robust, geopolitical war creates more risk around fuel and supply chain logistics. Company has commenced operations in UAE and will reflect within 6 months. Fuel price are expected to remain stable due to upcoming government elections and any changes would be expected after January 2024. TCI has started services for renewables sector i.e. solar and battery providers. The company is confident on achieving 10-15% growth on top line as well as bottom line.
- Volume:** Ocean Freight handled 66,041 TEU's H1FY24 vs 50,000 in H1FY23. Rake movements stood at 1,165 in H1FY24 vs 900 in H1FY23. Currently TCI's fleet contains 6 ships, 8500+ owned containers and 3 Auto Rail Rakes.
- Freight Division:** The freight division currently has 4,600 trucks under operation out of which only 120 are owned which cater through 25 strategically located hubs. This division witnessed muted growth (+1.35% QoQ) and stood at Rs. 4.81 bn with an EBIT margin of 3.4% due to delayed festive season and lower than expected volume growth. Company is cautiously reducing number of clients and high valued customers as it fears a delayed payment from a few interstate clients.
- Supply Chain Division:** The supply chain division operates 120+ trains every month along with 5000+ vehicles out of which 1000 are owned. TCI manages a total of 14 mn. Sq. ft. of warehousing space. This division displayed 7.63% growth QoQ and stood at Rs. 3.9 bn with an EBIT margin of 6.7%. Automotive sector has displayed good top line growth and is seeing good growth pick up in 2W segment and expects to come back in Q3FY24. Over the next 3-5 years contribution from the auto sector would reduce from 80% to 70%.
- Seaways Division:** This division reported 7.97% QoQ growth and stood at Rs. 1.35 bn with an EBIT margin of 22.9%. Management is expecting a flattish growth YoY and a slight drop in margins over FY23. They operate a total of 6 ships and own 8500+ multipurpose marine containers with a total capacity of 77,957 DWT. Recently the company placed an order worth Rs. 3 bn for 2 more ships with a capacity of 7300 DWT each and will be delivered by January 2026 & September 2026. These ships have a life of 25 years. Company is still on the lookout for second hand ships for FY25. The payback on a new ship would be around 6-7 years with an IRR of 20% and for the second hand ship will have a payback of around 7-8 years with an IRR of 19%.

- **Margin:** Margin should improve gradually as FTL has lower margin than LTL and company is shifting towards LTL.
- **JV:** Invested into new trucks as there are multiple new opportunities. JV with Toyota has performed exceptionally growing 50% on a YoY basis due to the increased volume from Toyota and cross badging products with Maruti Suzuki. Concor has shown marginal growth.
- **CAPEX:** TCI had a Capex plan of Rs. 2.7 bn for FY24 out of which the company has already spent Rs. 1.1 bn in H1FY24. The remaining amount will be used for purchasing ships, trucks & rakes, and hub centres & warehouses. The cost for the purchase of the new ships will be spent in instalments over the next few years. The Capex plan for FY25 will be approximately Rs. 2.7 bn and will increase by Rs. 1bn if the company purchases the second hand ship.
- **Currently the borrowing of the company stands at Rs. 700mn, cash of Rs. 3 bn and company is expecting to cross ROCE of 25%. ROCE will keep reducing till the new ships are operational.**
- **Freight Rates:** Bunker prices have gone up meanwhile freight rates have shown flattish increment.

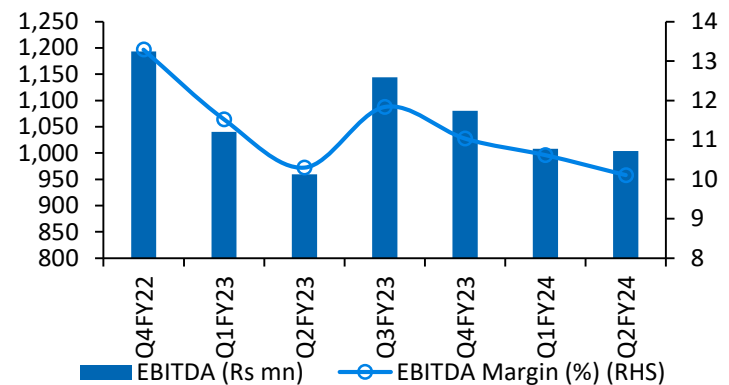
Story in Charts

Exhibit 4: Revenue grew QoQ



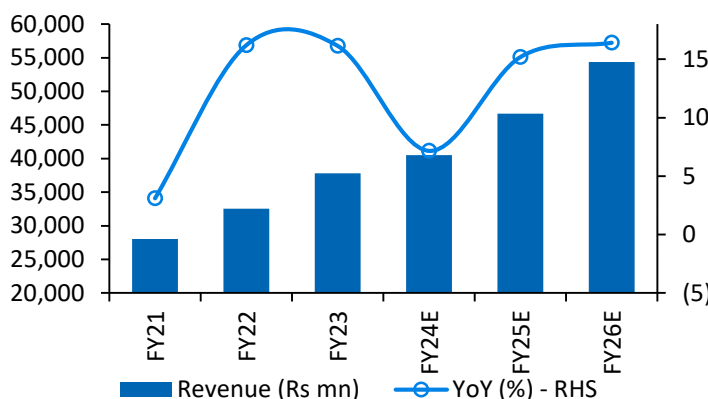
Source: , Company, DART

Exhibit 5: EBITDA margin remained flat QoQ



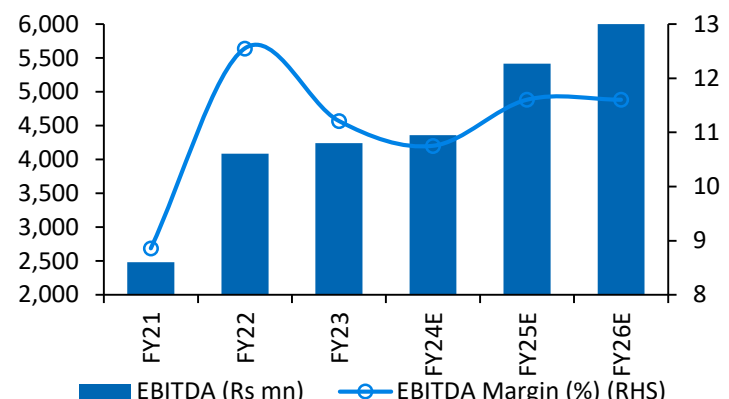
Source: , Company, DART

Exhibit 6: Revenue growth to remain healthy



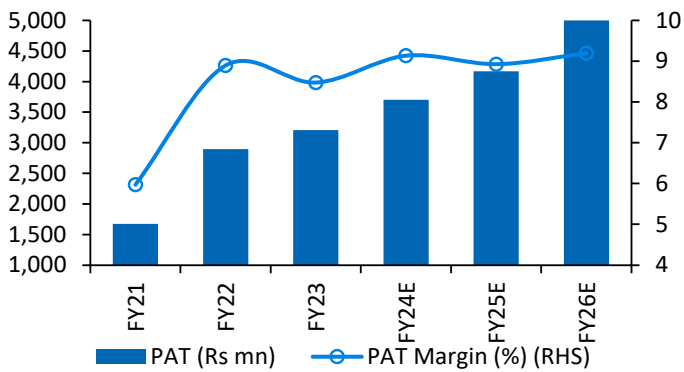
Source: , Company, DART

Exhibit 7: EBITDA margin to improve on better mix



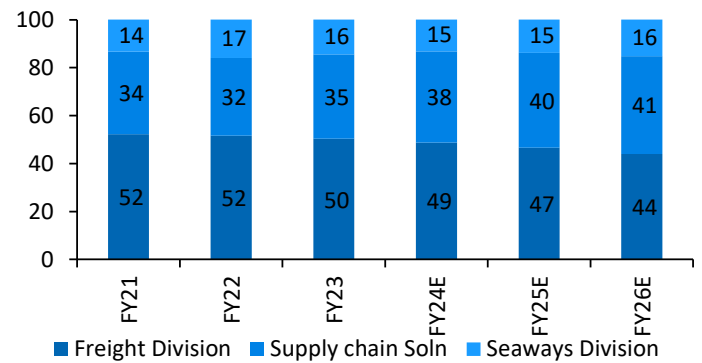
Source: , Company, DART

Exhibit 8: PAT CAGR of 16% from FY23-26E



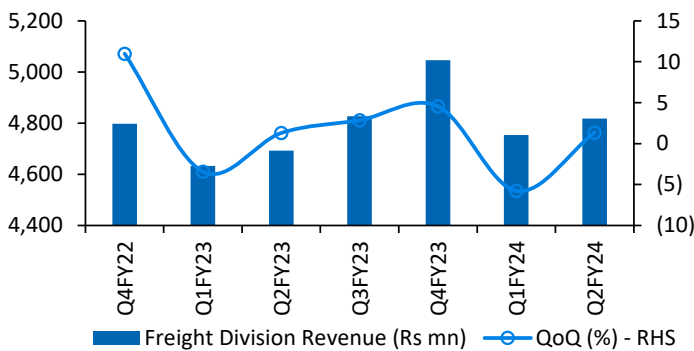
Source: DART, Company

Exhibit 9: Improving Segment mix (%)



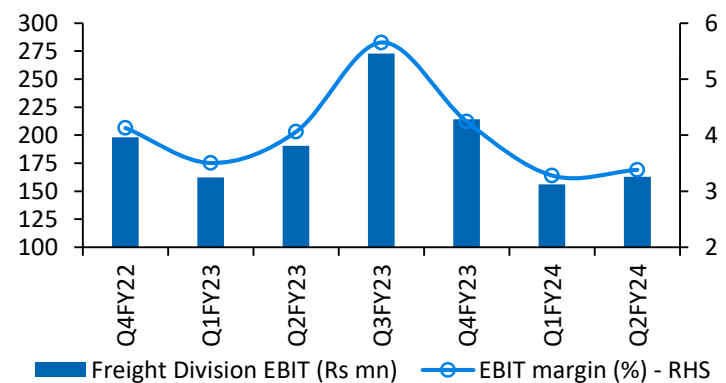
Source: DART, Company

Exhibit 10: Muted growth for Freight Division QoQ



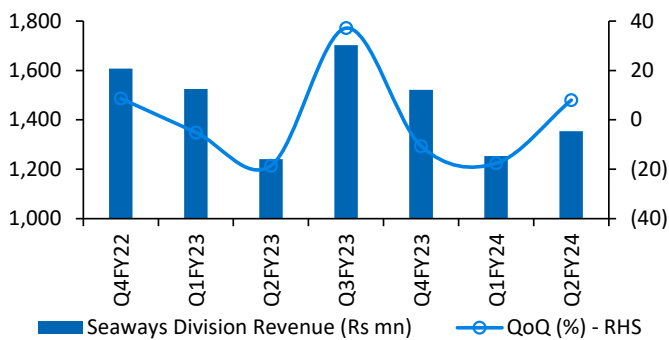
Source: , Company, DART

Exhibit 11: EBIT margin remained flat QoQ



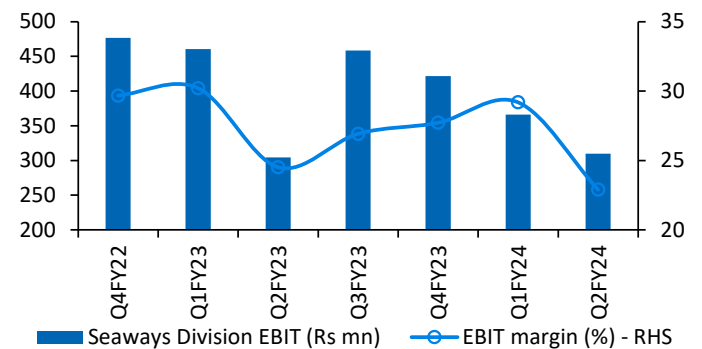
Source: , Company, DART

Exhibit 12: Revival in Seaways division revenue



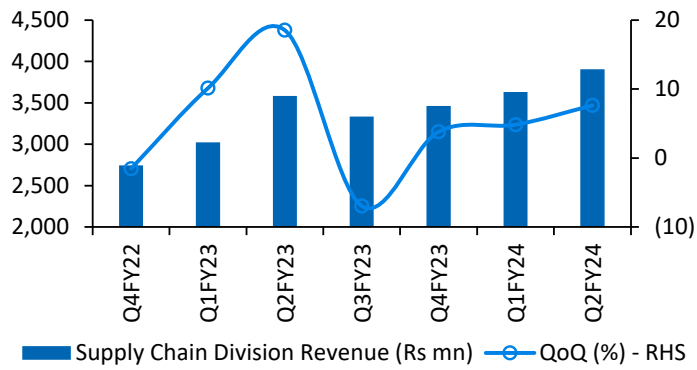
Source: DART, Company

Exhibit 13: De-growth in EBIT Margins



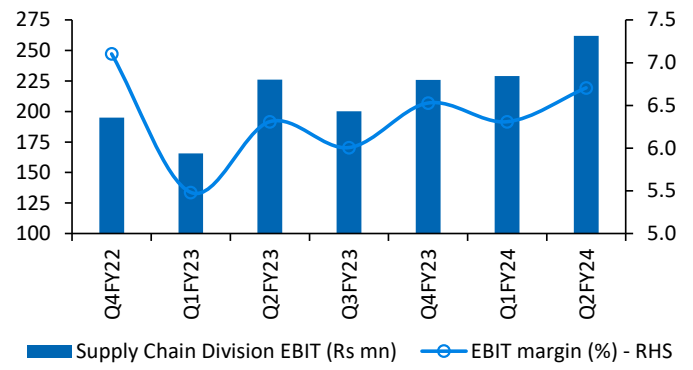
Source: DART, Company

Exhibit 14: Strong revenue growth QoQ



Source: DART, Company

Exhibit 15: EBIT margin grew QoQ



Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	37,826	40,538	46,695	54,361
Total Expense	33,586	36,180	41,278	48,054
COGS	30,307	32,531	37,356	43,488
Employees Cost	1,965	2,230	2,288	2,664
Other expenses	1,314	1,419	1,634	1,903
EBIDTA	4,240	4,358	5,418	6,307
Depreciation	1,214	1,265	1,662	1,812
EBIT	3,026	3,093	3,755	4,495
Interest	98	129	75	21
Other Income	303	446	514	598
Exc. / E.O. items	0	0	0	0
EBT	3,231	3,409	4,194	5,072
Tax	434	409	839	1,014
RPAT	3,206	3,703	4,168	4,999
Minority Interest	(33)	(37)	(37)	(37)
Profit/Loss share of associates	443	739	850	978
APAT	3,206	3,703	4,168	4,999

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	155	155	155	155
Minority Interest	0	0	0	0
Reserves & Surplus	16,863	20,243	24,139	28,865
Net Worth	17,018	20,398	24,294	29,020
Total Debt	919	719	420	120
Net Deferred Tax Liability	300	300	300	300
Total Capital Employed	18,237	21,417	25,014	29,440

Applications of Funds

Net Block	7,913	9,648	10,686	10,674
CWIP	260	338	439	571
Investments	2,859	3,359	3,859	4,359
Current Assets, Loans & Advances	9,463	10,453	11,917	14,880
Inventories	50	51	58	67
Receivables	5,609	6,512	7,502	8,733
Cash and Bank Balances	1,699	1,785	2,253	3,975
Loans and Advances	0	0	0	0
Other Current Assets	2,105	2,105	2,105	2,105
Less: Current Liabilities & Provisions	2,257	2,380	1,887	1,044
Payables	760	595	679	790
Other Current Liabilities	1,498	1,785	1,208	254
<i>sub total</i>				
Net Current Assets	7,206	8,073	10,031	13,836
Total Assets	18,237	21,417	25,014	29,440

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	19.9	19.8	20.0	20.0
EBIDTA Margin	11.2	10.8	11.6	11.6
EBIT Margin	8.0	7.6	8.0	8.3
Tax rate	13.4	12.0	20.0	20.0
Net Profit Margin	8.5	9.1	8.9	9.2
(B) As Percentage of Net Sales (%)				
COGS	80.1	80.3	80.0	80.0
Employee	5.2	5.5	4.9	4.9
Other	3.5	3.5	3.5	3.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	30.8	23.9	49.8	210.2
Inventory days	0	0	0	0
Debtors days	54	59	59	59
Average Cost of Debt	10.4	15.8	13.2	7.9
Payable days	7	5	5	5
Working Capital days	70	73	78	93
FA T/O	4.8	4.2	4.4	5.1
(D) Measures of Investment				
AEPS (Rs)	41.3	47.7	53.7	64.4
CEPS (Rs)	57.0	64.0	75.1	87.8
DPS (Rs)	4.5	4.0	4.0	4.0
Dividend Payout (%)	10.8	8.3	7.4	6.2
BVPS (Rs)	219.3	262.9	313.1	374.0
RoANW (%)	20.5	19.8	18.7	18.8
RoACE (%)	17.1	15.8	14.8	15.0
RoAIC (%)	19.3	17.1	17.7	18.6
(E) Valuation Ratios				
CMP (Rs)	819	819	819	819
P/E	19.8	17.2	15.2	12.7
Mcap (Rs Mn)	63,539	63,539	63,539	63,539
MCap/ Sales	1.7	1.6	1.4	1.2
EV	62,758	62,473	61,705	59,683
EV/Sales	1.7	1.5	1.3	1.1
EV/EBITDA	14.8	14.3	11.4	9.5
P/BV	3.7	3.1	2.6	2.2
Dividend Yield (%)	0.5	0.5	0.5	0.5
(F) Growth Rate (%)				
Revenue	16.1	7.2	15.2	16.4
EBITDA	3.7	2.8	24.3	16.4
EBIT	2.3	2.2	21.4	19.7
PBT	6.7	5.5	23.0	20.9
APAT	10.7	15.5	12.6	19.9
EPS	10.7	15.5	12.6	19.9

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	3,231	3,409	4,194	5,072
Depreciation & w.o.	1,214	1,265	1,662	1,812
Net Interest Exp	(446)	129	75	21
Direct taxes paid	(186)	(409)	(839)	(1,014)
Change in Working Capital	(729)	(796)	(632)	(758)
Non Cash	84	(23)	0	0
(A) CF from Operating Activities	3,167	3,575	4,461	5,132
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,530)	(3,078)	(2,801)	(1,932)
Free Cash Flow	1,637	498	1,659	3,201
(Inc.)/ Dec. in Investments	(724)	(500)	(500)	(500)
Other	336	53	134	134
(B) CF from Investing Activities	(1,917)	(3,525)	(3,167)	(2,298)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	132	(200)	(297)	(298)
Interest exp net	(66)	(129)	(75)	(21)
Dividend Paid (Incl. Tax)	(543)	0	0	0
Other	92	289	286	286
(C) CF from Financing	(385)	(40)	(86)	(33)
Net Change in Cash	865	10	1,207	2,801
Opening Cash balances	745	1,609	1,619	2,826
Closing Cash balances	1,609	1,619	2,826	5,628

E – Estimates

Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
