



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

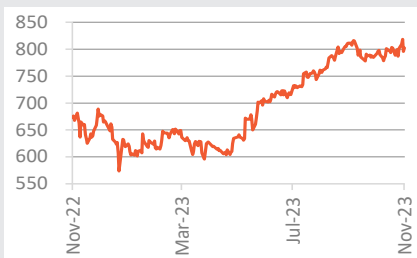
Company details

Market cap:	Rs. 6,231 cr
52-week high/low:	Rs. 862/556
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	68.9
FII	2.6
DII	12.9
Others	15.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.2	5.7	26.1	19.2
Relative to Sensex	3.4	8.3	21.7	14.0

Sharekhan Research, Bloomberg

Transport Corporation of India Ltd
Resilient performance; retain Buy

Logistics	Sharekhan code: TCI		
Reco/View: Buy	↔	CMP: Rs. 803	Price Target: Rs. 960
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain our Buy rating on TCI Limited with a revised PT of Rs. 960, rolling forward our SOTP-based valuation multiples to September 2025E earnings and considering its steady earnings growth trajectory.
- TCI reported in-line revenue and net profitability for FY2024, aided by healthy revenue growth in SCM and Seaways along with high PAT growth in Transystem JV. OPMs lagged due to pressure on OPMs in freight and Seaways.
- Management has retained 10-15% y-o-y revenue and net profit growth, with expected pick-up in demand in H2.
- The company plans two new ships additions at a capex of Rs. 300 crore, which will be delivered during CY2026. Hence, the Seaways business may remain flat till FY2026.

Transport Corporation of India Limited (TCI) reported an in-line consolidated revenue of Rs. 993.5 crore (up 6.6% y-o-y), aided by healthy revenue growth in SCM (up 9% y-o-y) and Seaways (up 10% y-o-y), while freight (up 1% y-o-y) remained muted. Concor JV and cold chain business reported healthy 16% y-o-y growth. Consolidated OPM at 10.1% (down 19 bps y-o-y) came in lower than our estimate of 10.9% on account of a decline in margins in Seaways (down 350 bps y-o-y) and freight (down 45 bps y-o-y), while SCM (flat y-o-y) remained stable. Consolidated net profit growth of 20% y-o-y at Rs. 87 crore was aided by higher income from the JV (Transystem reported 39% y-o-y jump in PAT). For FY2024, management has retained 10-15% y-o-y revenue and net profit growth guidance with expected pick-up in demand in H2. The company has signed up two new ships at a cost of Rs. 300 crore, which are expected to be delivered in Q4FY2026 and Q2FY2027, respectively. Consequently, Seaways business may remain flat till FY2026.

Key positives

- Seaways and SCM business's revenue grew 10% y-o-y and 9% y-o-y to Rs. 127 crore and Rs. 372 crore, respectively. SCM business reported stable OPM at 9.5%.
- Transystem JV reported 49% y-o-y growth in revenue and 39% y-o-y growth in net profit.

Key negatives

- Freight business reported almost flat y-o-y revenue growth on account of lower demand and delayed festive season. OPMs in freight declined by 45 bps y-o-y on account of the absence of volume growth.
- Seaways business saw normalising OPMs with a 350 bps y-o-y decline to 38.1%.

Management Commentary

- Management has retained its topline and bottom line growth guidance of 10-15% y-o-y on a standalone basis. Seaways business is expected to see flat growth till FY2026 as the first ship would get delivered during Q4FY2026.
- The company has signed up for two new ships with a total capacity of 14,600 DWT at a cost of Rs. 300 crore. The ships are fuel efficient with a life of 25 years.
- Capex for FY2024 has been lowered to Rs. 250-275 crore from earlier Rs. 375 crore, as the payment of ships would be done over two years and rake additions are likely to happen next year on account of demand moderation. Capex for FY2025 is estimated to be around the same levels.

Revision in estimates – We have fine-tuned our earnings estimates for FY2024-FY2025, factoring in slower freight business growth and lower Seaways OPMs.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 960: TCI is expected to drive overall revenue growth with healthy growth envisaged in the SCM business and improving run-rate in freight. At the same time, Seaways remains flat. The addition of two new ships in Seaways is expected to start contributing post-FY2026. TCI's multi-modal capabilities and exposure to almost all major end-user industries are expected to drive growth. We have introduced FY2026E earnings in this note. We expect consolidated revenue/operating profit/net profit CAGR of 12%/12%/13% over FY2023-FY2026E. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 960, as we roll forward our valuation multiples to September 2025E earnings.

Key Risks

A sustained weak macroeconomic and auto industry environment can lead to a downward revision in net earnings.

Valuation (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	3,782.6	4,195.0	4,758.6	5,317.2
OPM (%)	11.2	11.1	11.2	11.1
Adjusted PAT	321.4	361.2	413.5	466.6
% YoY growth	11.0	12.4	14.5	12.8
Adjusted EPS (Rs.)	41.6	46.7	53.5	60.4
P/E (x)	19.3	17.2	15.0	13.3
P/B (x)	3.6	3.0	2.5	2.2
EV/EBITDA (x)	14.7	13.4	11.7	10.6
RoNW (%)	20.5	19.3	18.5	17.6
RoCE (%)	16.3	14.9	14.2	13.3

Source: Company; Sharekhan estimates

In-line revenue and PAT although OPMs lagged

TCI reported consolidated net revenue of Rs. 993.5 crore (up 6.6% y-o-y, up 4.6% q-o-q), which was in-line with our estimate. Revenue from freight was up 2.7% y-o-y (+1.3% q-o-q) at Rs. 482 crore. Supply chain management revenue were up 9% y-o-y (+7.6% q-o-q) at Rs. 391 crore and Seaways revenue increased by 9% y-o-y (+8% q-o-q) at Rs. 135 crore. Consolidated OPM at 10.1% (-19bps y-o-y, -51bps q-o-q) was lower than our estimate of 10.9%, owing to higher employee costs (up 15% y-o-y). Lower OPM led to consolidated operating profit growth of 4.6% y-o-y (down 0.4% q-o-q) at Rs. 100 crore, which was 7% lower than our estimate. Higher other income (up 53% y-o-y) and increased income from JVs (Rs. 20.2 crore versus Rs. 13.8 crore/Rs. 17.4 crore in Q2FY2023/Q1FY2024). Consequently, consolidated adjusted net profit grew by 20.3% y-o-y (+5.7% q-o-q) at Rs. 87 crore, which was 6% higher than our estimate.

Key Conference Call takeaways

- ◆ **Guidance:** Management retained its topline and bottom-line growth guidance of 10-15% y-o-y on a standalone basis. Seaways business is expected to see flat growth till FY2026 as the first ship would get delivered during Q4FY2026. The freight business's RoCE would return to FY2023 level by the end of this year.
- ◆ **Q2FY2024 performance:** Slower topline growth was on account of a high base of last year with delayed festive season. However, it has seen a pick-up in demand from last month. It continues to maintain net zero borrowings and has Rs. 70 crore historical debt related to trucks. It commenced operations in UAE for cross-border trade although there could be 3-6 months disruptions in UAE on account of Israel Hamas war.
- ◆ **Freight:** The freight business was flat as volume growth did not happen, which also led to lower margins. Moreover, several companies delayed payments due to high interest rates, which led to the company letting go of some volume growth. The move towards LTL started with a 100-bps improvement vis-à-vis last year.
- ◆ **SCM:** About 80% of the business comes from auto-related sectors. Two-wheeler demand has seen pick-up over the last few months.
- ◆ **Seaways:** It has 8,500 containers and six ships. Volume growth picked up, while margins declined. Bunker prices have gone up, but there was not much increase in freight rates on account of lower demand and a competitive environment.
- ◆ **Ship purchase:** The company has signed up for two new ships with a total capacity of 14,600 DWT at a cost of Rs. 300 crore. One of the ships is expected to be delivered in January 2026 and the second one during August-September 2026. The ships are fuel efficient with a life of 25 years and has loaded container capacity of 300-350. It would continue to look for second-hand ships from next year. The payback period of the new ship is 6-7 years with an IRR of 20-21%. The payback period of second-hand ships is 7-8 years with an IRR of 19-20%.
- ◆ **Transystem JV:** The JV reported almost 50% jump in topline during Q2FY2024. Toyota is talking about the third plant now.
- ◆ **Capex:** Capex for FY2024 has been lowered to Rs. 250-275 crore from Rs. 375 crore earlier as the payment of ships would be done over two years and rake additions are likely to happen next year on account of demand moderation. It has incurred Rs. 115 crore in H1FY2024. Capex for FY2025 is estimated to be around the same levels.

Results (Consolidated)					Rs cr	
Particulars	Q2FY2024	Q2FY2023	y-o-y (%)	Q1FY2024	q-o-q (%)	
Net sales	993.5	932.1	6.6%	949.8	4.6%	
Other income	11.3	7.4	53.3%	8.5	32.9%	
Total income	1004.8	939.5	7.0%	958.3	4.9%	
Total expenses	893.1	836.1	6.8%	849.0	5.2%	
Operating profit	100.4	96.0	4.6%	100.8	-0.4%	
Depreciation	31.1	30.0	3.6%	30.8	1.0%	
Interest	3.4	2.5	33.9%	2.3	47.8%	
Exceptional items	0.0	0.0		0.0		
Profit Before Tax	77.2	70.8	9.1%	76.2	1.3%	
Taxes	9.6	11.6	-17.2%	10.4	-7.7%	
PAT	67.6	59.2	14.2%	65.8	2.7%	
Minority Interest/JV income	-19.4	-13.2	47.3%	-16.5	17.6%	
Adjusted PAT	87.0	72.3	20.3%	82.3	5.7%	
EPS (Rs.)	11.3	9.4	20.3%	10.6	5.7%	
Margins						
OPM (%)	10.1%	10.3%	-19 bps	10.6%	-51 bps	
NPM (%)	8.8%	7.8%	100 bps	8.7%	9 bps	
Tax rate (%)	12.4%	16.4%	-394 bps	13.6%	-121 bps	

Source: Company Data; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Strong growth outlook led by changing consumer preferences and macro pick-up

The logistics industry had been one of the key sectors that showed a strong revival post-COVID-19 pandemic, which affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail freight volume, domestic port volume, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business, led by user industries' preference towards credible supply chain management in the wake of the impact of COVID-19 on supply chain operations. Further, the third-party logistics (3PL) industry has seen a faster improvement in operations, led by segments such as e-commerce, pharma, and FMCG. Hence, we upgrade our view on the logistics sector to Positive from Neutral.

■ Company Outlook – Strong headroom for long-term growth

TCI has a strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and supply-chain businesses, with over six decades of experience, give it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

■ Valuation – Retain Buy with a revised price target of Rs. 960

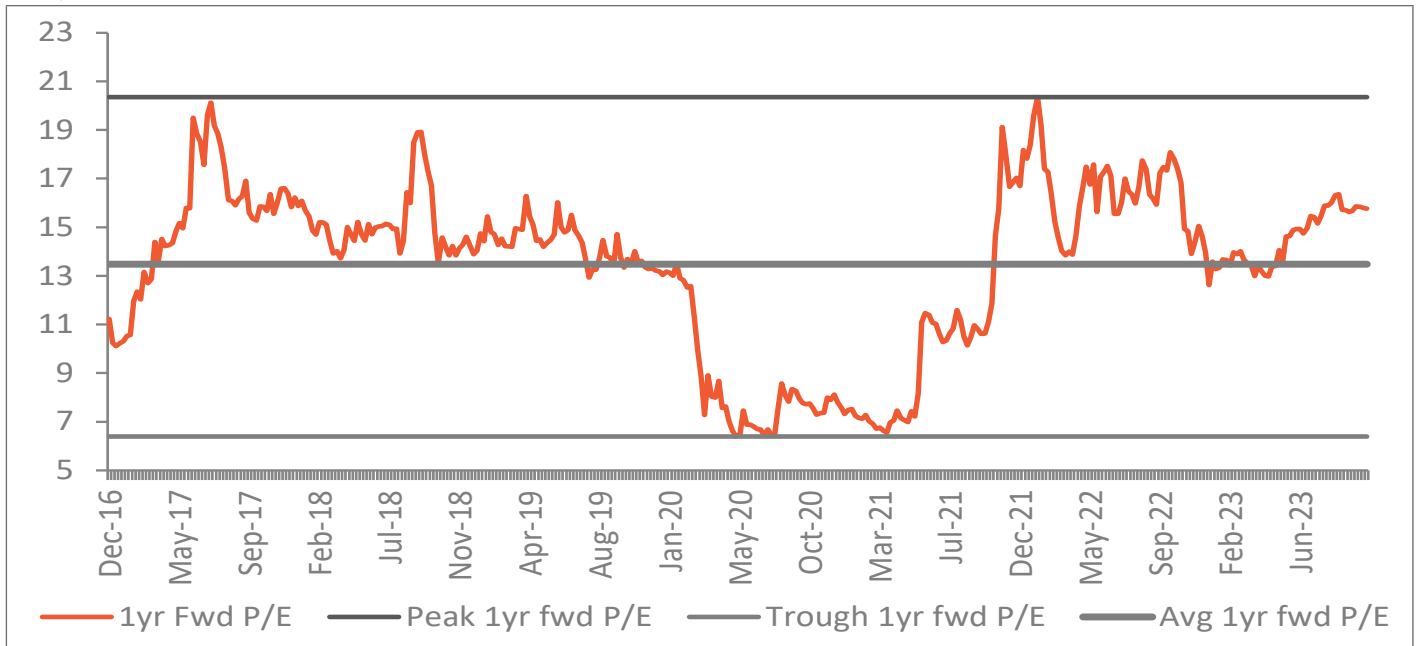
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Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	9x EV/EBITDA on Sep-25E	987	128
SCM	12x EV/EBITDA on Sep-25E	2629	340
Seaways	10x EV/EBITDA on Sep-25E	2422	313
Less: Net Debt	FY2025E	-480	-62
Value of core verticals		6517	843
Transystem JV	1x P/B	902	117
Price Target (Rs.)			960

Source: Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
TCI	17.2	15.0	13.4	11.7	3.0	2.5	19.3	18.5
TCI Express	31.7	25.0	21.9	17.3	7.0	5.7	24.3	25.3
Mahindra Logistics	-	44.7	8.0	6.1	4.0	3.7	-0.7	9.6

Source: Sharekhan Research

About the company

TCI is India's leading integrated supply chain and logistics solutions provider with over six decades of experience. The company has an extensive pan-India network present across major districts. TCI has 12 mn. sq. ft. of warehousing space. The company has three broad business verticals. TCI Freight transports cargo on FTL/ LTL/small packages and consignments/over-dimensional cargo. TCI Supply Chain Solutions: The core service offerings are supply chain consultancy, inbound logistics, warehousing/distribution centre management, and outbound logistics. TCI Seaways: TCI Seaways owns six ships and caters to coastal cargo requirements for transporting containers and bulk cargo.

Investment theme

TCI has strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and the supply chain business with over six decades of experience, gives it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

Key Risks

- ◆ Slowdown in the macroeconomy leading to a weak logistics industry outlook.
- ◆ High concentration on the automotive industry.
- ◆ Highly competitive industry.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman and Managing Director
Mr. Vineet Agarwal	Managing Director
Mr. Ashish Tiwari	Group Chief Financial Officer
Ms. Archana Pandey	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bhoruka Supply Chain Solutions Hol	44.3
2	Agarwal Dharmal P	10.1
3	HDFC Asset Management Co Ltd	7.9
4	Agarwal Vineet	4.0
5	Agarwal Priyanka	3.8
6	Agarwal Urmila	2.4
7	Agarwal Chander	2.4
8	Tata Asset Management Pvt Ltd	1.4
9	INVESTOR EDUCATION & PROTECTN FD	1.3
10	Bang Nirmal Mishrilal	1.1

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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