

BUY

TP: Rs 355 | ▲ 31%

**TRANSPORT CORP OF
INDIA**

Logistics

30 January 2020

Topline disappoints, margin resilient

Transport Corp's (TRPC) consolidated Q3FY20 revenue (-0.6% YoY) was a miss due to lower SCS (-6.8%) and seaways (-1.3%) revenue, while freight grew at a decent clip (+4.5%). EBITDA margin (9.2%, +60bps YoY) beat estimates, yielding broadly in-line EBITDA (+6% YoY). While we remain cautious on prospects over the next 1-2 quarters, management anticipates some uptick in demand and hence a better Q4. We cut FY20-FY22 EBITDA estimates by 3-5% and move to a Mar'21 TP of Rs 355 (vs. Rs 365).

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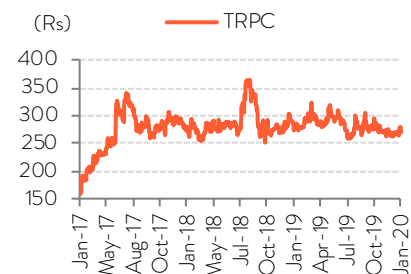
Seaways – revenue disappoints, margin surprises: Despite the addition of a ship (28,500dwt), seaways revenue dipped 1% YoY amidst subdued freight availability and intense competition, especially on the west coast. TRPC only pursued profitable business opportunities, which restricted growth but yielded a 410bps rise in segmental EBIT margin. The company's ability to effectively pass on the rise in fuel costs post IMO implementation will be a key monitorable in Q4.

Ticker/Price	TRPC IN/Rs 272
Market cap	US\$ 291.0mn
Shares o/s	77mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 328/Rs 250
Promoter/FPI/DII	67%/2%/10%

Source: NSE

Freight steady, SCS sluggish: Freight revenue and EBIT grew at a healthy 4.5% and 16% YoY respectively, led mainly by market share gains in the LTL segment. Supply chain (SCS) revenue/EBIT declined 7%/15% YoY due to a slowdown in the key auto vertical. Q4 is likely to be better for both segments as management anticipates a pickup in business sentiment and uptick in auto production logistics.

STOCK PERFORMANCE



Source: NSE

EBITDA margin resilient: Higher freight and seaways profitability catalysed 60bps expansion in EBITDA margin. A lower share of profit from the Transystem JV (-77% YoY) – stemming from plummeting volumes of the anchor customer – dented PBT growth (-16.4% YoY). PAT rose 3.2% YoY aided by lower taxes.

Reiterate BUY: We cut FY20-FY22 revenue and EBITDA by 4-7% and 3-5% respectively, leading to a revised SOTP-based Mar'21 TP of Rs 355 (vs. Rs 365).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	23,499	27,536	28,323	31,949	37,167
EBITDA (Rs mn)	2,165	2,495	2,671	3,148	3,746
Adj. net profit (Rs mn)	1,238	1,460	1,603	1,853	2,263
Adj. EPS (Rs)	16.2	19.0	20.9	24.2	29.5
Adj. EPS growth (%)	52.4	17.7	9.8	15.6	22.1
Adj. ROAE (%)	17.6	17.7	16.7	16.6	17.6
Adj. P/E (x)	16.8	14.3	13.0	11.2	9.2
EV/EBITDA (x)	11.1	9.9	9.4	8.0	6.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	7,063	7,108	(0.6)	6,846	3.2	20,501	20,110	1.9
Operating expenses	5,792	5,900	(1.8)	5,576	3.9	16,737	16,577	1.0
% of sales	82.0	83.0	(100bps)	81.5	55bps	81.6	82.4	(79bps)
Employee expenses	382	351	9.0	386	(0.9)	1,152	1,052	9.5
% of sales	5.4	4.9	48bps	5.6	(22bps)	5.6	5.2	39bps
Other expenses	240	247	(2.6)	297	(18.9)	792	772	2.6
% of sales	3.4	3.5	(7bps)	4.3	(93bps)	3.9	3.8	2bps
Total expenditure	6,415	6,498	(1.3)	6,258	2.5	12,266	11,903	3.0
EBITDA	648	610	6.2	587	10.4	1,820	1,709	6.5
EBITDA margin (%)	9.2	8.6	59bps	8.6	60bps	8.9	8.5	38bps
Depreciation	215	208	3.4	203	5.8	617	573	7.8
EBIT	433	402	7.7	384	12.8	1,202	1,136	5.8
Interest expenses	89	107	(16.2)	82	8.5	259	278	(6.9)
Other income	57	49	17.2	41	39.8	134	145	(7.7)
PBT	401	345	16.4	343	17.1	1,077	1,003	7.4
PBT margin (%)	5.7	4.8	83bps	5.0	68bps	5.3	5.0	27bps
Share of profit/(loss) from JV	19	83	(77.2)	92	(79.3)	194	197	(1.4)
PBT - after share of profit/(loss) from JV	420	428	(1.8)	435	(3.3)	1,272	1,200	5.9
Extraordinary income/(expense)	-	-	NM	(99)	NM	(99)	-	NM
Tax rate	77	95	(19.3)	(47)	NM	102	244	(58.2)
Tax rate (%) – total	18.2	22.2	(395bps)	(10.7)	2,900bps	9.5	24.4	(1487bps)
Reported PAT	344	333	3.2	382	(10.1)	1,071	956	12.0
Adjustment	-	-	NM	99	NM	99	-	NM
Adjusted PAT	344	333	3.2	481	(28.6)	1,169	956	22.3
Adjusted PAT margin (%)	4.9	4.7	18bps	7.0	(216bps)	5.7	4.8	95bps
Adjusted EPS	4.5	4.3	3.1	6.3	(28.6)	15.3	12.5	22.3

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Freight segment								
Revenue	3,746	3,586	4.5	3,548	5.6	10,681	10,252	4.2
EBIT	129	111	15.9	101	26.7	320	282	13.7
EBIT margin	3.4	3.1	34bps	2.9	57bps	3.0	2.7	25bps
Supply chain management segment								
Revenue	2,431	2,608	(6.8)	2,478	(1.9)	7,348	7,535	(2.5)
EBIT	132	155	(14.8)	158	(16.7)	458	502	(8.8)
EBIT margin	5.4	5.9	(51bps)	6.4	(96bps)	6.2	6.7	(43bps)
Seaways segment								
Revenue	989	1,002	(1.3)	854	15.9	2,632	2,506	5.0
EBIT	226	188	20.2	145	55.6	1,291	441	192.9
EBIT margin	22.9	18.8	409bps	17.0	585bps	49.1	17.6	3,146bps

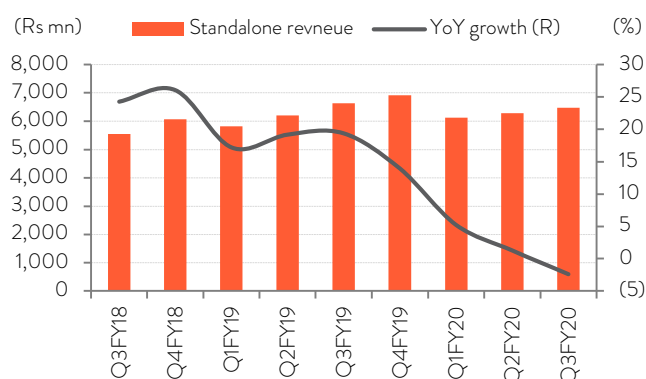
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE – STANDALONE

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	6,473	6,630	(2.4)	6,282	3.0	12,403	12,018	3.2
Operating expenses	5,241	5,438	(3.6)	5,062	3.5	10,004	9,781	2.3
% of sales	81.0	82.0	(105bps)	80.6	39bps	80.7	81.4	(73bps)
Employee expenses	370	340	9.0	374	(0.8)	746	680	9.7
% of sales	5.7	5.1	60bps	5.9	(22bps)	6.0	5.7	36bps
Other expenses	235	242	(2.9)	281	(16.6)	526	513	2.5
% of sales	3.6	3.6	(2bps)	4.5	(85bps)	4.2	4.3	(3bps)
Total expenditure	5,846	6,020	(2.9)	5,717	2.3	11,276	10,974	2.8
EBITDA	627	611	2.7	566	10.8	1,128	1,044	8.0
EBITDA margin (%)	9.7	9.2	48bps	9.0	68bps	9.1	8.7	40bps
Depreciation	204	205	(0.3)	190	7.4	376	359	4.9
EBIT	423	406	4.2	376	12.6	752	686	9.6
Interest expenses	84	102	(17.2)	77	9.5	159	163	(2.4)
Other income	58	76	(23.8)	84	(31.1)	159	164	(2.9)
PBT	396	380	4.3	382	3.7	751	686	9.5
PBT margin (%)	6.1	5.7	39bps	6.1	4bps	6.1	5.7	35bps
Extraordinary income/(expense)	-	-	NM	(99)	NM	(99)	-	NM
Tax rate	75	80	(6.7)	(49)	(252.5)	22	145	(84.6)
Tax rate (%) – total	18.9	21.1	(224bps)	(12.8)	3,175bps	3.0	21.2	(1,820bps)
Reported PAT	321	300	7.3	333	(3.4)	630	541	16.5
Adjustment	-	-	NM	99	NM	99	-	NM
Adjusted PAT	321	300	7.3	431	(25.5)	729	541	34.8
Adjusted PAT margin (%)	5.0	4.5	45bps	6.9	(190bps)	5.9	4.5	138bps
Adjusted EPS	4.2	3.9	7.3	5.6	(25.5)	9.5	7.1	34.8

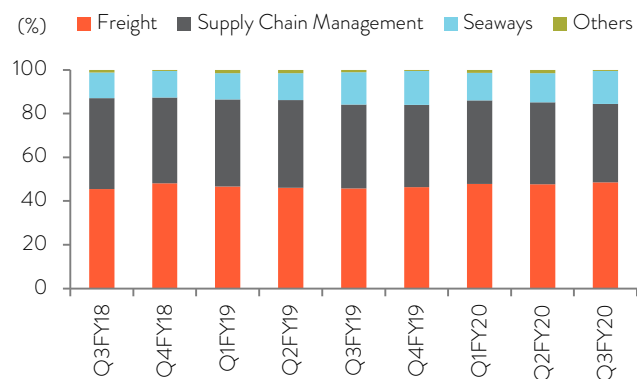
Source: Company, BOBCAPS Research

FIG 4 – STANDALONE REVENUE DECLINED 2.4% YOY



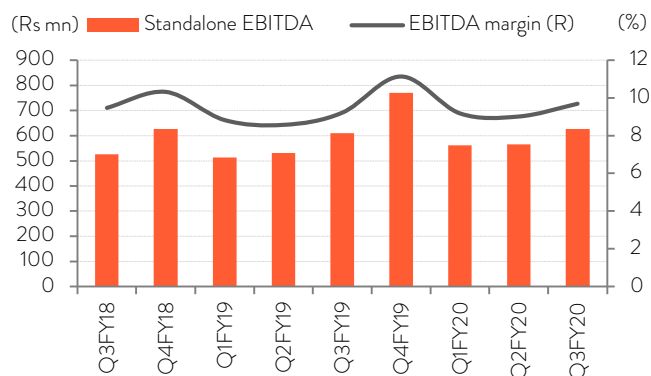
Source: Company, BOBCAPS Research | Consolidated financials are available from Q1FY19, hence we have shown long-term standalone quarterly trend

FIG 5 – SHARE OF FREIGHT SEGMENTS INCHEDED UP



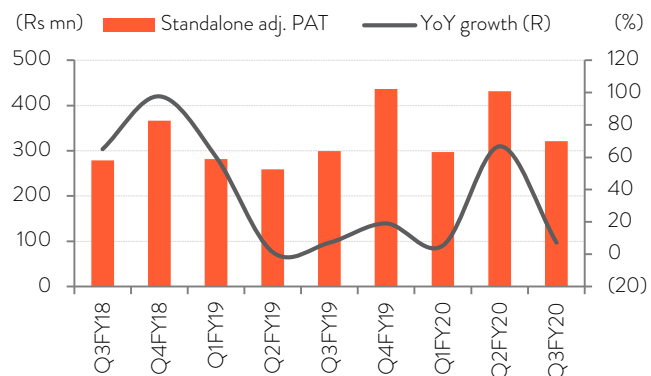
Source: Company, BOBCAPS Research

FIG 6 – STANDALONE EBITDA MARGIN EXPANDED 48BPS YOY TO 9.7%



Source: Company, BOBCAPS Research

FIG 7 – ADJ. PAT GREW BY 7% YOY



Source: Company, BOBCAPS Research

Valuation methodology

We pare our FY20-FY22 revenue estimates by 4-7% and EBITDA estimates by 3-5%, given the muted near-term outlook. The impact on earnings is lower due to a downward revision in tax rates (management expects ~15% tax rate in FY20). We value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core businesses and P/E multiple for the profit from its Transystem JV. Post estimate revision, we lower our Mar'21 target price to Rs 355 from Rs 365. Maintain BUY.

We continue to like TRPC for its multimodal capability – road, coastal shipping, and rail (through the JV with Container Corp), strong positioning across business segments, and robust clientele. The stock is trading at 9x FY22E EPS despite a decent ROE profile and good earnings prospects, indicating favourable risk-reward. TRPC is the top value pick in our logistics coverage universe.

FIG 8 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	29,433	28,323	(3.8)	34,312	31,949	(6.9)	40,109	37,167	(7.3)
EBITDA	2,741	2,671	(2.6)	3,305	3,148	(4.7)	3,935	3,746	(4.8)
EBITDA margin (%)	9.3	9.4	12bps	9.6	9.9	22bps	9.8	10.1	27bps
PAT	1,647	1,603	(2.7)	1,902	1,853	(2.6)	2,322	2,263	(2.5)
PAT margin (%)	5.6	5.7	6bps	5.5	5.8	25bps	5.8	6.1	30bps

Source: Company, BOBCAPS Research

FIG 9 – VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
Freight segment	
FY22E EBITDA	794
EV/EBITDA multiple applied (x)	6.0
Total EV for the segment	4,766
Supply chain segment	
FY22E EBITDA	1,363
EV/EBITDA multiple applied (x)	9.0
Total EV for the segment	12,268
Seaways segment	
FY22E EBITDA	1,448
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	10,133
Total EV of the consolidated business (ex. JV)	27,168
Net debt	3,524
Equity value of the consolidated business (ex. JV)	23,644
FY22E EPS of Transystem Logistics	746
P/E multiple applied (x)	10
Fair value of Transystem Logistics	7,458
Share of TRPC (%)	49
Valuation attributed to TRPC	3,655
Total equity value including JV	27,298
No. of shares	76.7
Target price	355

Source: Company, BOBCAPS Research

Key risks

Downside risks to our estimates include:

- prolonged slowdown in manufacturing activity,
- rising competitive intensity adversely impacting seaways volumes and/or realisations,
- high client attrition in the supply chain segment, and
- sharp rise in fuel costs.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	23,499	27,536	28,323	31,949	37,167
EBITDA	2,165	2,495	2,671	3,148	3,746
Depreciation	687	774	878	1,011	1,141
EBIT	1,478	1,721	1,792	2,138	2,605
Net interest income/(expenses)	(322)	(374)	(341)	(341)	(328)
Other income/(expenses)	144	195	178	192	220
Exceptional items	0	0	0	0	0
EBT	1,301	1,542	1,630	1,988	2,496
Income taxes	(287)	(333)	(244)	(457)	(599)
Extraordinary items	0	(7)	0	0	0
Min. int./Inc. from associates	224	251	218	321	365
Reported net profit	1,238	1,453	1,603	1,853	2,263
Adjustments	0	7	0	0	0
Adjusted net profit	1,238	1,460	1,603	1,853	2,263

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	597	674	605	681	794
Other current liabilities	805	1,336	1,552	1,751	2,037
Provisions	55	65	67	76	88
Debt funds	4,411	4,722	4,362	4,162	3,562
Other liabilities	0	0	0	0	0
Equity capital	153	153	153	153	153
Reserves & surplus	7,511	8,819	10,228	11,858	13,711
Shareholders' fund	7,664	8,972	10,382	12,011	13,864
Total liabilities and equities	13,533	15,770	16,967	18,680	20,345
Cash and cash eq.	142	155	418	638	499
Accounts receivables	4,249	5,151	5,432	6,127	7,128
Inventories	33	53	55	62	72
Other current assets	1,198	1,583	1,619	1,827	2,125
Investments	1,044	1,168	1,168	1,168	1,168
Net fixed assets	6,252	7,263	7,925	8,414	8,773
CWIP	563	40	0	0	0
Intangible assets	6	5	5	5	5
Deferred tax assets, net	(445)	(390)	(390)	(390)	(390)
Other assets	491	741	735	830	965
Total assets	13,533	15,770	16,967	18,680	20,345

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,925	2,234	2,481	2,863	3,404
Interest expenses	322	374	341	341	328
Non-cash adjustments	50	(55)	0	0	0
Changes in working capital	(832)	(940)	(164)	(720)	(1,034)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,465	1,613	2,658	2,484	2,699
Capital expenditures	(1,523)	(1,261)	(1,500)	(1,500)	(1,500)
Change in investments	(177)	(124)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,700)	(1,386)	(1,500)	(1,500)	(1,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	595	312	(361)	(200)	(600)
Interest expenses	(322)	(374)	(341)	(341)	(328)
Dividends paid	(123)	(138)	(193)	(223)	(409)
Other financing cash flows	40	(14)	0	0	0
Cash flow from financing	191	(214)	(895)	(764)	(1,337)
Changes in cash and cash eq.	(44)	13	263	219	(139)
Closing cash and cash eq.	142	155	418	638	499

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	16.2	19.0	20.9	24.2	29.5
Adjusted EPS	16.2	19.0	20.9	24.2	29.5
Dividend per share	1.6	1.8	2.5	2.9	5.3
Book value per share	99.5	116.4	134.7	156.0	180.2

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.0	0.9	0.9	0.8	0.7
EV/EBITDA	11.1	9.9	9.4	8.0	6.5
Adjusted P/E	16.8	14.3	13.0	11.2	9.2
P/BV	2.7	2.3	2.0	1.7	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	95.2	94.7	98.4	93.2	90.6
Interest burden (PBT/EBIT)	88.0	89.6	90.9	93.0	95.8
EBIT margin (EBIT/Revenue)	6.3	6.2	6.3	6.7	7.0
Asset turnover (Revenue/Avg TA)	2.0	2.1	1.9	2.0	2.2
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.5	1.4	1.3
Adjusted ROAE	17.6	17.7	16.7	16.6	17.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	21.0	17.2	2.9	12.8	16.3
EBITDA	33.6	15.3	7.0	17.9	19.0
Adjusted EPS	52.4	17.7	9.8	15.6	22.1
Profitability & Return ratios (%)					
EBITDA margin	9.2	9.1	9.4	9.9	10.1
EBIT margin	6.3	6.2	6.3	6.7	7.0
Adjusted profit margin	5.3	5.3	5.7	5.8	6.1
Adjusted ROAE	17.6	17.7	16.7	16.6	17.6
ROCE	12.7	12.9	12.3	13.5	15.2
Working capital days (days)					
Receivables	67	66	68	70	70
Inventory	1	1	1	1	1
Payables	10	10	9	9	9
Ratios (x)					
Gross asset turnover	3.4	3.2	2.8	2.8	2.8
Current ratio	3.9	3.3	3.4	3.5	3.4
Net interest coverage ratio	4.6	4.6	5.3	6.3	7.9
Adjusted debt/equity	0.6	0.5	0.4	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

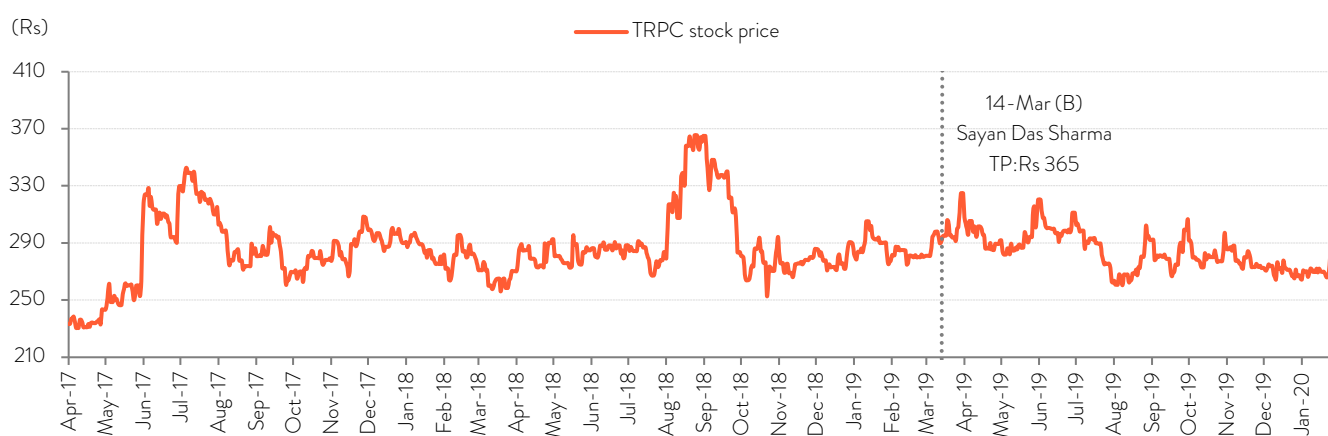
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: TRANSPORT CORP OF INDIA (TRPC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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