

BUY

TP: Rs 330 | ▲ 32%

**TRANSPORT CORP OF
INDIA**

| Logistics

| 04 February 2021

A lot to like

Transport Corp's (TRPC) Q3FY21 print beat estimates on all fronts. Consolidated revenue rose 14% YoY to Rs 8.1bn (est. Rs 7.4bn), boosted by 24% growth in SCS revenue. EBITDA/adj. PAT jumped 23%/55% YoY. We expect TRPC's growth to accelerate in coming quarters supported by recovery in key-client industry verticals (auto, bulk goods), rising LTL volumes and a benign base. The improving outlook prompts us to raise FY21/FY22/FY23 EBITDA estimates by 13%/5%/5%. On rollover, our Mar'22 TP rises to Rs 330 (vs. Rs 300). BUY.

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SCS segment rebounds: TRPC's supply chain segment grew at a strong 24% YoY led by a cyclical recovery in the key auto vertical (~80% of segment revenue). Steady client addition in the FMCG and e-commerce verticals over past quarters also lent a fillip to growth. Sustained momentum in the TCI-Concor JV (+62%/+64% YoY in Q3/9M) spurred an 11% YoY uptick in consolidated freight revenue, though traction in road freight (standalone) was relatively muted at 2%. Seaways growth eased to 4.9% YoY vs. 9% in Q2 due to limited capacity as one ship was in dry dock.

Ticker/Price TRPC IN/Rs 250

Market cap US\$ 262.8mn

Shares o/s 77mn

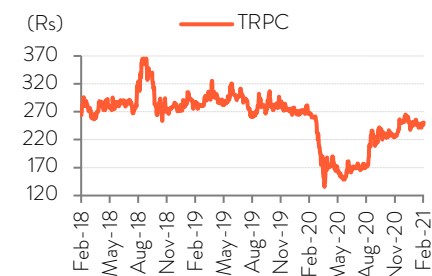
3M ADV US\$ 0.1mn

52wk high/low Rs 280/Rs 122

Promoter/FPI/DII 67%/2%/12%

Source: NSE

EBITDA margin at multi-quarter high: Higher gross margins (+20bps YoY), coupled with lower staff costs (-80bps) saw EBITDA margin scale up to 9.9% (+70bps), the highest in seven quarters. SCS/freight EBIT margins expanded 122bps/77bps YoY to 6.7%/4.2%. Seaways EBIT margin fell 24bps to 22.6%.

STOCK PERFORMANCE

Source: NSE

Tailwinds converging: We expect TRPC to be a prime beneficiary of the ongoing economic recovery owing to its unmatched multi-modal capabilities. A cyclical upturn in the key auto vertical augurs well for the SCS segment, whereas a rising share of LTL and gradual uptick in freight availability should boost the freight segment. An improving balance sheet – net debt has declined to Rs 2.5bn from Rs 3.4bn in FY20 – is another positive.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	27,536	27,178	27,320	31,705	35,383
EBITDA (Rs mn)	2,495	2,405	2,508	3,030	3,507
Adj. net profit (Rs mn)	1,460	1,531	1,408	1,692	1,978
Adj. EPS (Rs)	19.0	19.9	18.3	22.0	25.7
Adj. EPS growth (%)	17.7	4.6	(8.0)	20.2	16.9
Adj. ROAE (%)	17.7	16.0	12.9	13.8	14.4
Adj. P/E (x)	13.2	12.6	13.7	11.4	9.7
EV/EBITDA (x)	9.3	9.8	9.3	7.6	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)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Total revenues	8,071	7,063	14.3	6,969	15.8	19,097	20,501	(6.8)
Operating expenses	6,602	5,792	14.0	5,763	14.6	15,677	16,737	(6.3)
% of sales	81.8	82.0	(21bps)	82.7	(89bps)	82.1	81.6	45bps
Employee expenses	373	382	(2.4)	341	9.4	1,015	1,152	(11.9)
% of sales	4.6	5.4	(79bps)	4.9	(27bps)	5.3	5.6	(30bps)
Other expenses	299	240	24.3	243	23.1	679	792	(14.3)
% of sales	3.7	3.4	30bps	3.5	22bps	3.6	3.9	(31bps)
Total expenditure	7,274	6,415	13.4	6,346	14.6	17,371	18,681	(7.0)
EBITDA	797	648	23.0	622	28.0	1,726	1,820	(5.2)
EBITDA margin (%)	9.9	9.2	70bps	8.9	94bps	9.0	8.9	16bps
Depreciation	233	215	8.3	209	11.4	648	617	4.9
EBIT	564	433	30.2	414	36.4	1,078	1,202	(10.3)
Interest expenses	63	89	(29.2)	69	(8.4)	206	259	(20.3)
Other income	46	57	(19.9)	66	(30.0)	142	134	6.3
PBT	547	401	36.3	410	33.4	1,014	1,077	(5.9)
PBT margin (%)	6.8	5.7	109bps	5.9	89bps	5.3	5.3	6bps
Share of profit/(loss) from JV	52	19	173.2	47	11.6	97	194	(50.0)
PBT - after share of profit/(loss) from JV	599	420	42.5	457	31.1	1,111	1,272	(12.6)
Extraordinary income/(expense)	(104)	-	NM	-	NM	(104)	(99)	NM
Tax rate	65	77	(15.0)	84	(22.3)	158	102	54.2
Tax rate (%) – total	10.9	18.2	(736bps)	18.4	(749bps)	15.5	9.5	606bps
Reported PAT	429	344	24.9	373	15.2	849	1,071	(20.7)
Adjustment	104	-	NM	-	NM	104	99	5.6
Adjusted PAT	534	344	55.3	373	43.2	953	1,169	(18.5)
Adjusted PAT margin (%)	6.6	4.9	175bps	5.3	126bps	5.0	5.7	(71bps)
Adjusted EPS	7.0	4.5	55.3	4.9	43.2	12.4	15.3	(18.5)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Freight segment								
Revenue	4,149	3,740	10.9	3,572	16.2	10,026	10,725	(6.5)
EBIT	173	128	36.0	119	46.3	332	320	3.7
EBIT margin	4.2	3.4	77bps	3.3	86bps	3.3	3.0	33bps
Supply chain management segment								
Revenue	3,011	2,431	23.9	2,541	18.5	6,670	7,348	(9.2)
EBIT	200	132	51.7	166	20.4	398	459	(13.2)
EBIT margin	6.7	5.4	122bps	6.5	10bps	6.0	6.2	(27bps)
Seaways segment								
Revenue	1,038	989	4.9	932	11.3	2,652	2,632	0.8
EBIT	235	226	3.8	155	52.0	430	528	(18.6)
EBIT margin	22.6	22.9	(24bps)	16.6	607bps	16.2	20.1	(385bps)

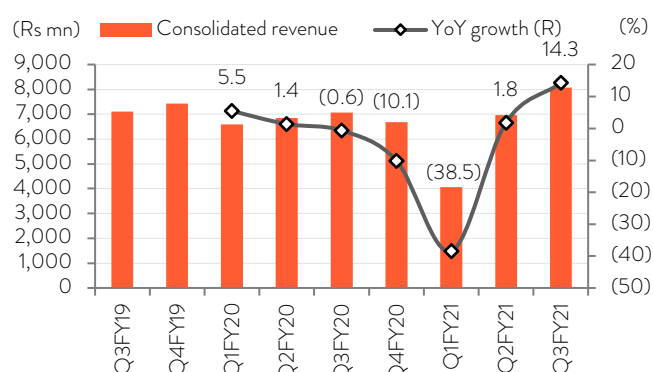
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE – STANDALONE

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Total revenues	7,152	6,473	10.5	6,122	16.8	16,554	18,877	(12.3)
Operating expenses	5,760	5,241	9.9	4,976	15.8	13,323	15,245	(12.6)
% of sales	80.5	81.0	(43bps)	81.3	(74bps)	80.5	80.8	(28bps)
Employee expenses	359	370	(3.0)	329	9.2	977	1,116	(12.5)
% of sales	5.0	5.7	(70bps)	5.4	(35bps)	5.9	5.9	(1bps)
Other expenses	278	235	18.7	227	22.6	631	760	(17.0)
% of sales	3.9	3.6	27bps	3.7	18bps	3.8	4.0	(22bps)
Total expenditure	6,398	5,846	9.4	5,532	15.6	14,931	17,122	(12.8)
EBITDA	754	627	20.3	590	27.8	1,623	1,755	(7.5)
EBITDA margin (%)	10.5	9.7	86bps	9.6	91bps	9.8	9.3	51bps
Depreciation	220	204	7.9	198	11.3	613	580	5.8
EBIT	534	423	26.3	392	36.2	1,010	1,175	(14.1)
Interest expenses	58	84	(31.0)	64	(8.6)	192	244	(21.4)
Other income	86	58	50.3	71	22.0	246	216	13.8
PBT	562	396	41.9	399	40.8	1,064	1,148	(7.3)
PBT margin (%)	7.9	6.1	174bps	6.5	134bps	6.4	6.1	35bps
Extraordinary income/(expense)	(104)	-	NM	-	NM	(104)	(99)	NM
Tax rate	58	75	(23.2)	79	(27.5)	141	97	44.8
Tax rate (%) – total	10.2	18.9	(868bps)	19.9	(963bps)	13.2	8.5	476bps
Reported PAT	401	321	24.6	320	25.2	819	951	(13.9)
Adjustment	104	-	NM	-	NM	104	99	(100.0)
Adjusted PAT	505	321	57.1	320	57.7	923	1,050	(12.1)
Adjusted PAT margin (%)	7.1	5.0	209bps	5.2	183bps	5.6	5.6	1bps
Adjusted EPS	6.6	4.2	57.1	4.2	57.7	12.1	13.7	(12.1)

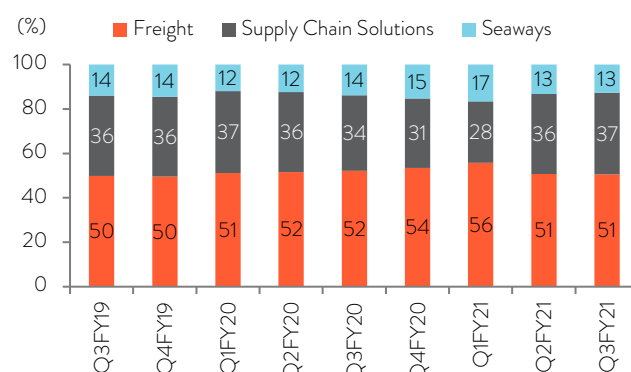
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE GREW 14.3% YOY



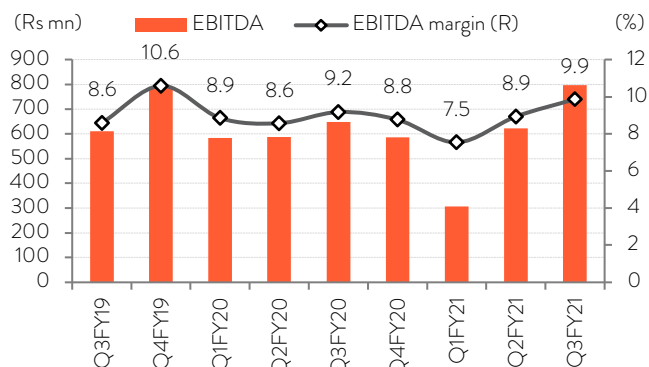
Source: Company, BOBCAPS Research

FIG 5 – SCS SEGMENT REGAINED REVENUE SHARE



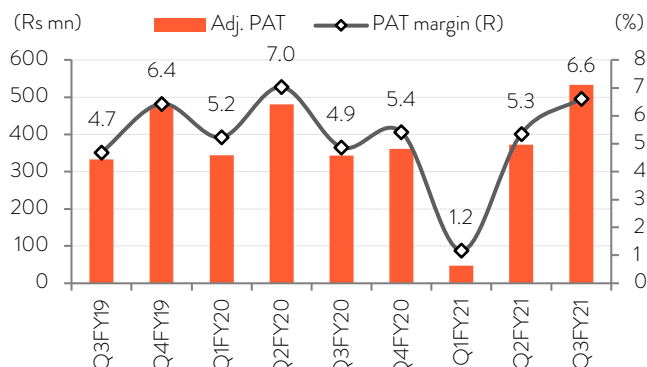
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBITDA MARGIN EXPANDED BY 70BPS YOY TO 9.9%



Source: Company, BOBCAPS Research

FIG 7 – ADJ. PAT LEAPED 55% YOY



Source: Company, BOBCAPS Research

FIG 8 – CAPEX PLAN AND FUNDING PATTERN

(Rs mn)	FY20A	9MFY21A	FY21E
Capex details			
Hub centres and small warehouses	152	407	445
Ships	509	-	400
Containers	187	246	280
Trucks and other vehicles	241	213	340
Others (IT, wind energy, warehousing equipment)	25	4	35
Total	1,114	870	1,500
Funding pattern			
Debt	440	-	700
Equity	-	-	-
Internal accruals	674	-	800
Total	1,114	-	1,500

Source: Company, BOBCAPS Research

Valuation methodology

Baking in the Q3FY21 outperformance and improving demand outlook across key industries of auto, e-commerce, bulk goods, we raise our EBITDA estimates for FY21/ FY22/FY23 by 13%/5%/5% and PAT estimates by 27%/9%/7%. We continue to value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core business segments and P/E multiple for its 49% stake in the Transystem JV. Post estimate revision and valuation rollover, we have a revised Mar'22 target price of Rs 330 from Rs 300, set at unchanged FY23E EBITDA multiples of 6x/8x/7x for the freight/SCS/seaways segments.

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 company should also benefit from rising LTL share within the freight segment, cyclical recovery in the key auto vertical (~80% of revenue) and increasing logistics outsourcing trends in its 3PL/SCS segment. The stock is trading at attractive valuations of 11x/9.7x FY22E/FY23E EPS. We remain optimistic on long-term business prospects and reiterate BUY.

FIG 9 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	25,758	27,320	6.1	30,339	31,705	4.5	33,845	35,383	4.5
EBITDA	2,219	2,508	13.1	2,891	3,030	4.8	3,346	3,507	4.8
EBITDA margin (%)	8.6	9.2	57bps	9.5	9.6	3bps	9.9	9.9	2bps
PAT	1,107	1,408	27.2	1,553	1,692	9.0	1,842	1,978	7.4
PAT margin (%)	4.3	5.2	86bps	5.1	5.3	22bps	5.4	5.6	15bps

Source: Company, BOBCAPS Research

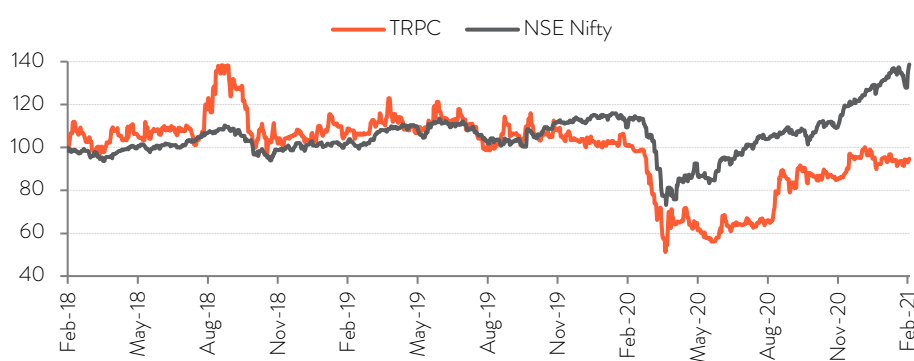
FIG 10 – VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
Freight segment	
FY23E EBITDA	798
EV/EBITDA multiple applied (x)	6.0
Total EV for the segment	4,786
Supply chain segment	
FY23E EBITDA	1,437
EV/EBITDA multiple applied (x)	8.0
Total EV for the segment	11,498
Seaways segment	
FY23E EBITDA	1,389
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	9,722
Total EV of the consolidated business (ex. JV)	26,007
Net debt	2,955
Equity value of the consolidated business (ex. JV)	23,052

Segment-wise valuation	(Rs mn)
FY23E PAT of Transystem Logistics	487
P/E multiple applied (x)	10.0
Fair value of Transystem Logistics	4,870
Share of TRPC (%)	49
Valuation attributed to TRPC	2,386
Total equity value including JV	25,438
No. of shares (mn)	76.9
Mar'22 Target price	330

Source: Company, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates include:

- any delay in economic recovery,
- any impediment to the auto industry’s cyclical upturn, and
- inability to pass on higher freight rates to clients, which could exert downward pressure on operating margin.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	27,536	27,178	27,320	31,705	35,383
EBITDA	2,495	2,405	2,508	3,030	3,507
Depreciation	774	825	898	1,017	1,117
EBIT	1,721	1,580	1,610	2,013	2,390
Net interest income/(expenses)	(374)	(343)	(275)	(264)	(241)
Other income/(expenses)	195	201	193	176	190
Exceptional items	0	0	0	0	0
EBT	1,542	1,438	1,528	1,925	2,339
Income taxes	(333)	(159)	(309)	(450)	(599)
Extraordinary items	(7)	(99)	(104)	0	0
Min. int./Inc. from associates	251	252	189	217	239
Reported net profit	1,453	1,432	1,304	1,692	1,978
Adjustments	7	99	104	0	0
Adjusted net profit	1,460	1,531	1,408	1,692	1,978

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	674	639	649	752	837
Other current liabilities	1,336	1,259	1,647	1,911	1,939
Provisions	65	102	103	119	133
Debt funds	4,722	4,236	4,236	3,886	3,536
Other liabilities	0	0	0	0	0
Equity capital	153	154	154	154	154
Reserves & surplus	8,819	10,142	11,458	12,896	14,479
Shareholders' fund	8,972	10,296	11,611	13,050	14,633
Total liabilities and equities	15,770	16,531	18,245	19,718	21,077
Cash and cash eq.	155	259	274	475	581
Accounts receivables	5,151	4,873	5,614	6,515	7,270
Inventories	53	66	66	87	97
Other current assets	1,583	1,877	2,144	2,196	2,451
Investments	1,168	1,354	1,354	1,354	1,354
Net fixed assets	7,263	7,479	8,296	8,530	8,663
CWIP	40	216	0	0	0
Intangible assets	5	5	5	5	5
Deferred tax assets, net	(390)	(302)	(302)	(302)	(302)
Other assets	741	706	795	859	959
Total assets	15,770	16,531	18,245	19,718	21,077

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	2,234	2,356	2,306	2,709	3,095
Interest expenses	374	343	275	264	241
Non-cash adjustments	(55)	(88)	0	0	0
Changes in working capital	(940)	(69)	(699)	(654)	(994)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,613	2,542	1,882	2,319	2,343
Capital expenditures	(1,261)	(1,216)	(1,500)	(1,250)	(1,250)
Change in investments	(124)	(185)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,386)	(1,401)	(1,500)	(1,250)	(1,250)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	312	(487)	0	(350)	(350)
Interest expenses	(374)	(343)	(275)	(264)	(241)
Dividends paid	(138)	(201)	(92)	(254)	(396)
Other financing cash flows	(14)	(6)	0	0	0
Cash flow from financing	(214)	(1,037)	(368)	(868)	(987)
Changes in cash and cash eq.	13	104	14	201	106
Closing cash and cash eq.	155	259	274	475	581

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	18.6	17.0	22.0	25.7
Adjusted EPS	19.0	19.9	18.3	22.0	25.7
Dividend per share	1.8	2.0	1.2	3.3	5.1
Book value per share	116.4	133.2	150.4	169.1	189.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.8	0.9	0.9	0.7	0.6
EV/EBITDA	9.3	9.8	9.3	7.6	6.5
Adjusted P/E	13.2	12.6	13.7	11.4	9.7
P/BV	2.2	1.9	1.7	1.5	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	94.7	106.4	92.1	87.9	84.6
Interest burden (PBT/EBIT)	89.6	91.0	94.9	95.6	97.8
EBIT margin (EBIT/Revenue)	6.2	5.8	5.9	6.4	6.8
Asset turnover (Revenue/Avg TA)	2.1	1.9	1.8	1.9	2.0
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.4	1.4	1.3
Adjusted ROAE	17.7	16.0	12.9	13.8	14.4

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	17.2	(1.3)	0.5	16.0	11.6
EBITDA	15.3	(3.6)	4.3	20.8	15.7
Adjusted EPS	17.7	4.6	(8.0)	20.2	16.9
Profitability & Return ratios (%)					
EBITDA margin	9.1	8.8	9.2	9.6	9.9
EBIT margin	6.2	5.8	5.9	6.4	6.8
Adjusted profit margin	5.3	5.6	5.2	5.3	5.6
Adjusted ROAE	17.7	16.0	12.9	13.8	14.4
ROCE	12.9	10.9	10.4	12.1	13.4
Working capital days (days)					
Receivables	68	65	75	75	75
Inventory	1	1	1	1	1
Payables	10	9	10	10	10
Ratios (x)					
Gross asset turnover	3.2	2.8	2.4	2.5	2.5
Current ratio	3.3	3.5	3.4	3.3	3.6
Net interest coverage ratio	4.6	4.6	5.8	7.6	9.9
Adjusted debt/equity	0.5	0.4	0.3	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

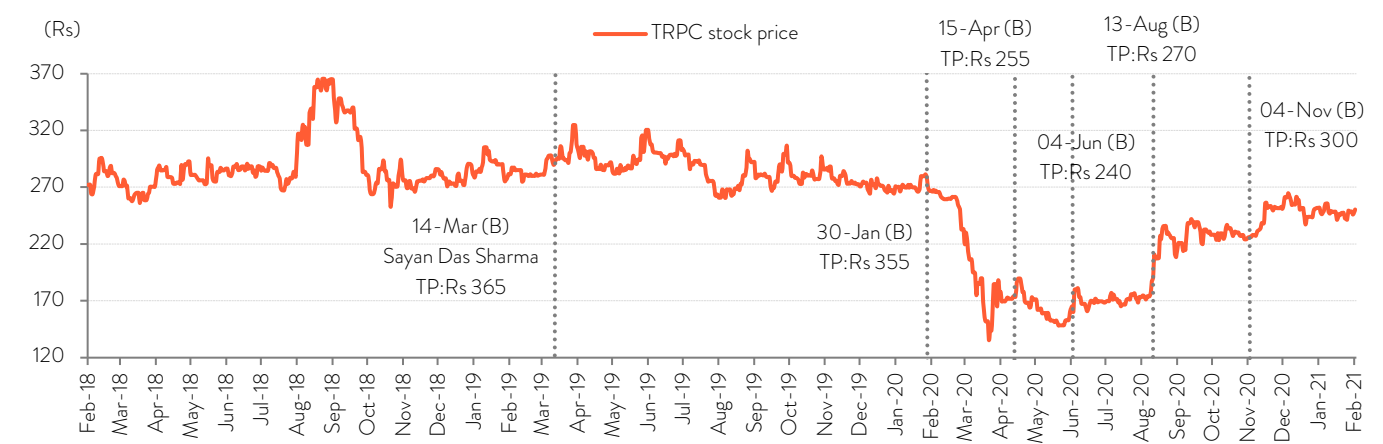
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): TRANSPORT CORP OF INDIA (TRPC IN)



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

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