

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	628
12 month price target (INR)	875
Market cap (INR bn/USD bn)	48/0.6
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

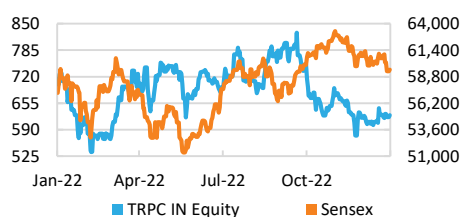
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Revenue	32,567	38,412	43,271	48,060
EBITDA	4,087	4,301	5,093	5,603
Adjusted profit	2,928	3,379	3,967	4,313
Diluted EPS (INR)	37.1	42.8	50.3	54.7
EPS growth (%)	84.6	15.4	17.4	8.7
RoAE (%)	22.5	21.6	21.3	19.7
P/E (x)	16.9	14.7	12.5	11.5
EV/EBITDA (x)	11.9	11.1	9.1	8.0
Dividend yield (%)	0.6	0.7	0.9	0.9

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Robust quarter; attractive valuation

Transport Corporation of India (TCI) recorded a robust Q3FY23 led by an all-time high performance. Overall, results were broad-based with all three segments participating. On the margin front, freight and supply-chain saw sequentially stable margins, whereas seaways saw sequential dip – laudable given the lack of international business – nonetheless, this was on expected lines.

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. Moreover, at one-year forward PE of 13x, TCI provides valuation comfort. Maintain 'BUY' with an unchanged TP of INR875, implying 18x 1Y-forward earnings.

Record quarter; margins back on track

TCI posted a robust Q3FY23 led by an all-round performance. Standalone revenue was up 16% YoY/3.5% QoQ. Post a blip in Q2, margins reverted to normal levels. Segmentally, supply-chain saw stable revenue and margins led by festive demand and year-end stocking, but grew 21% YoY as auto demand remains robust. On the seaways side, all ships operated for the quarter with better volumes post-monsoon. However, given the lack of international business, EBITDA margins dipped to 40.4% in Q3FY23 vs. Q3FY22. Nonetheless, these are still encouraging margins, in our view. Overall, results were robust and above estimates.

Business-mix change to provide re-rating impetus

Our investment rationale for TCI is based on the company's underlying business mix improving over the next three–four years. TCI 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 – expected to log 15%-plus CAGR over the next five–seven years. TCI also plans to add capacity in its seaways division (now pushed to FY24E), which should aid margin expansion and RoCE over the medium-term. However, a greater-than-expected drop in the seaways division's earnings could be a dampener for FY24E.

Outlook and valuation: Attractive prospects; retain 'BUY'

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. The stock, at one-year forward PE of 13x, provides valuation comfort. We argue there is more value though, and hence, retain 'BUY/SO' with an unchanged TP of INR875 (18x 1Y-forward).

Financials

Year to March	Q3FY23	Q3FY22	% Change	Q2FY23	% Change
Net Revenue	8,808	7,593	16.0	8,509	3.5
EBITDA	1,088	1,069	1.8	916	18.8
Adjusted Profit	953	776	22.9	574	66.1
Diluted EPS (INR)	12.4	10.1	22.9	7.5	66.1

TRANSPORT CORPORATION

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Total operating income	32,567	38,412	43,271	48,060
Cost of Goods Sold	25,766	30,714	34,384	38,250
Employee costs	1,700	2,039	2,277	2,524
Other expenses	1,013	1,357	1,517	1,682
EBITDA	4,087	4,301	5,093	5,603
Depreciation	1,130	1,221	1,348	1,564
Less: Interest expense	128	102	114	117
Add: Other income	199	624	613	692
Profit before tax	3,028	3,603	4,243	4,614
Prov for tax	377	445	520	569
Less: Other adjustment	277	221	243	268
Reported profit	2,928	3,379	3,967	4,313
Less: Excp.item (net)	0	0	0	0
Adjusted profit	2,928	3,379	3,967	4,313
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	37	43	50	55
DPS (INR)	4.1	4.6	5.5	6.0
Tax rate (%)	12.4	12.4	12.3	12.3

Important Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
EBITDA margin (%)	12.6	11.2	11.8	11.7
PBT growth (% YoY)	81.1	19.0	17.8	8.7
Net profit margin (%)	9.0	8.8	9.2	9.0
Revenue growth (% YoY)	16.2	17.9	12.6	11.1
EBITDA growth (% YoY)	56.5	5.2	18.4	10.0
Asset turnover (X)	2.1	2.2	2.1	2.0
Adj. profit growth (%)	84.6	15.4	17.4	8.7
EBIT margin (%)	9.1	8.0	8.7	8.4

Assumptions (%)

Year to March	FY22A	FY23E	FY24E	FY25E
GDP (YoY %)	8.7	6.4	5.8	5.8
Repo rate (%)	4.0	6.5	5.5	5.5
USD/INR (average)	74.5	81.0	81.0	81.0
Freight margin (%)	4.5	4.5	4.6	4.8
SCM margin (%)	10.7	11.0	11.7	12.0
Real. per DWT (INR)	90,000	90,000	0	0
Freight div. (% YoY)	19.2	13.4	0	0
SCM growth(% YoY)	7.2	27.0	0	0
Seaways (% YoY)	44.4	12.1	0	0

Valuation Metrics

Year to March	FY22A	FY23E	FY24E	FY25E
Diluted P/E (x)	16.9	14.7	12.5	11.5
Price/BV (x)	3.5	2.9	2.5	2.1
EV/EBITDA (x)	11.9	11.1	9.1	8.0
Dividend yield (%)	0.6	0.7	0.9	0.9

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Share capital	155	155	155	155
Reserves	14,148	16,848	20,053	23,537
Shareholders funds	14,303	17,003	20,208	23,691
Minority interest	274	274	274	274
Borrowings	962	1,173	1,006	1,165
Trade payables	851	947	1,069	1,192
Other liab & prov	1,586	1,162	1,162	1,162
Total liabilities	18,041	20,577	23,737	27,502
Net block	7,983	8,091	9,218	10,126
Intangible assets	30	6	6	6
Capital WIP	73	73	73	73
Total fixed assets	8,087	8,170	9,297	10,205
Non current inv	1,780	1,780	1,780	1,780
Cash/cash equivalent	745	1,807	3,033	5,097
Sundry debtors	5,083	6,347	7,148	7,936
Loans & advances	13	13	13	13
Other assets	2,166	2,129	2,135	2,140
Total assets	18,041	20,577	23,737	27,502

Free Cash Flow (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Reported profit	2,928	3,379	3,967	4,313
Add: Depreciation	1,130	1,221	1,348	1,564
Interest (net of tax)	86	68	77	78
Others	(302)	(812)	(819)	(922)
Changes in WC	(163)	(2,174)	(685)	(670)
Operating cash flow	3,680	1,681	3,889	4,364
Less: Capex	(707)	(1,304)	(2,476)	(2,472)
Free cash flow	2,973	377	1,413	1,892

Key Ratios

Year to March	FY22A	FY23E	FY24E	FY25E
RoE (%)	22.5	21.6	21.3	19.7
RoCE (%)	21.1	21.8	21.8	20.3
Receivable days	57	54	57	57
Payable days	9	9	9	9
cash conversion cycle	49	46	49	49
Working cap (% sales)	15.0	17.3	17.0	16.7
Gross debt/equity (x)	0.1	0.1	0	0
Net debt/equity (x)	0	0	(0.1)	(0.2)
Interest coverage (x)	23.0	30.3	32.7	34.5

Valuation Drivers

Year to March	FY22A	FY23E	FY24E	FY25E
EPS growth (%)	84.6	15.4	17.4	8.7
RoE (%)	22.5	21.6	21.3	19.7
EBITDA growth (%)	56.5	5.2	18.4	10.0
Payout ratio (%)	11.0	10.8	10.9	10.9

TRANSPORT CORPORATION

Exhibit 1: Quarterly financials

Financial snapshot - (Standalone)

INR mn	Q3FY23	Q3FY22	YoY %	Q2FY23	QoQ %	FY22	FY23E	FY24E
Revenues	8,808	7,593	16.0	8,509	3.5	29,046	34,362	38,614
Operating expenses	6,939	5,839	18.9	6,799	2.1	22,552	27,017	30,133
Employee Benefit Expenses	476	422	13.0	475	0.3	1,638	1,968	2,195
Others	305	264	15.4	319	(4.3)	952	1,287	1,435
Total expenditure	7,721	6,525	18.3	7,593	1.7	25,141	30,272	33,763
EBITDA	1,088	1,069	1.8	916	18.8	3,904	4,091	4,851
Depreciation	301	241	25.1	289	4.2	1,076	1,166	1,294
EBIT	787	828	(5.0)	627	25.5	2,829	2,924	3,557
Interest	22	22	1.9	21	3.8	109	89	99
Other income	289	71	305.6	76	280.5	311	604	613
Add: Exceptional items	0	0	NA	0	N/A	0	0	0
Profit Before Tax	1,053	878	20.0	682	54.5	3,031	3,440	4,071
Less: Provision for Tax	100	102	(1.7)	108	(7.0)	357	403	468
Reported Profit	953	776	22.9	574	66.1	2,674	3,038	3,603
Adjusted Profit	953	776	22.9	574	66.1	2,674	3,038	3,603
Adjusted Diluted EPS	12.4	10.1	22.9	7.5	66.1	34.8	39.6	46.9
P/E (x)						16.9	14.7	12.5
As % of net revenues								
Operating expenses	78.8	76.9		79.9		77.6	78.6	78.0
Staff expenses	5.4	5.6		5.6		5.6	5.7	5.7
Other expenses	3.5	3.5		3.7		3.3	3.7	3.7
EBITDA	12.4	14.1		10.8		13.4	11.9	12.6
Net profit	10.8	10.2		6.7		9.2	8.8	9.3

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	7.45	JP Morgan Chase	0.49
LIC Mutual Fund	0.91	Sundaram AMC	0.47
TATA AMC	0.87	BlackRock	0.16
Dimensional Fun	0.84	Wisdom Tree Inv	0.07
IDFC Mutual Fun	0.75	Acadian Asset M	0.03

*Latest public data

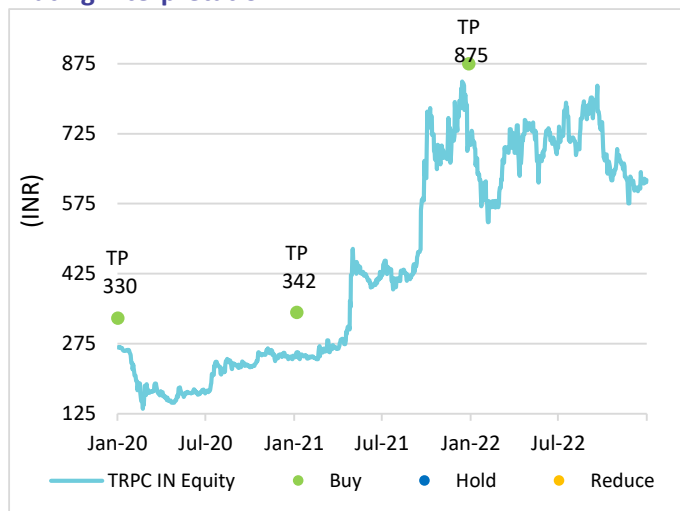
Recent Company Research

Date	Title	Price	Reco
31-Oct-22	A modest H1; second half to be better; <i>Result Update</i>	715	Buy
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

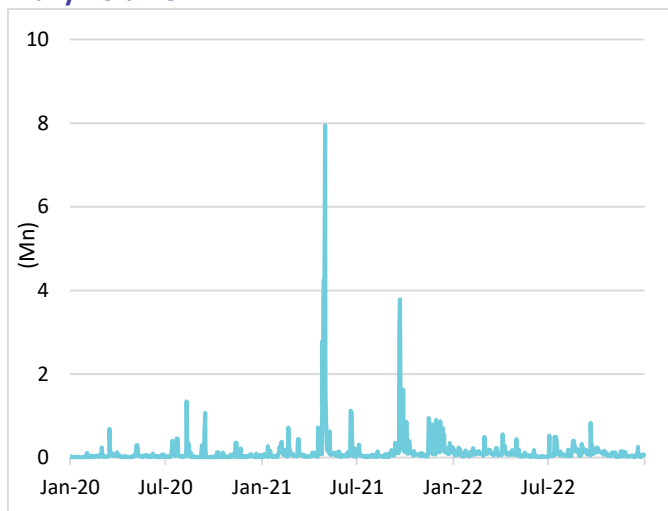
Recent Sector Research

Date	Name of Co./Sector	Title
25-Jan-23	Blue Dart Express	Transitory margin pain; <i>Result Update</i>
24-Jan-23	Container Corporation	Market share loss and margin dip; <i>Result Update</i>
05-Jan-23	Logistics	Steady progress; margin recovery likely; <i>Sector Update</i>

Rating Interpretation



Daily Volume



Rating Distribution: Nuvama Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	62	19	260
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	228	31	1	260

* stocks under review

Rating Rationale

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

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