

Transport Corporation

BUY

CMP Rs. 367

Target Rs. 462

Upside 25.9%

Result Highlights

- ✓ Transport Corporation 34.7% yoy growth in revenues to Rs.8.9 bn. The freight division revenues came in at Rs.4.8 bn, up by 32.0% yoy with EBIT margin at 4.0%. The supply chain solution reported revenues of Rs.3.0 bn (+42.0% yoy) with EBIT margin of 6.9%. The seaways division for the quarter reported revenue of Rs.1.3 bn (+24.4% yoy) with EBIT margin of 23.5%
- ✓ Overall the MSME sector did well during the quarter which helped improve volumes. The Company witnessed pent up demand post COVID recovery. TCI is witnessing robust pipeline of opportunities with strong connect made with customers during the pandemic.
- ✓ The company generated strong free cash flow in FY21 which it has used in working capital, significantly reducing working capital debt. The company has utilized only 32% of its available working capital debt limits.
- ✓ The Company is witnessing opportunities in the Cold chain segment and expect the segment to witness strong growth in next few years. While Freight rates have been rising, the Company has managed to pass on large part of the increase to customers.

Our view: The company has witnessed a strong revival in demand in the last 2 quarters across all its 3 major business segments. This has helped it to make up for the loss of revenue in Q1 FY21 ending the year with 3.1% yoy growth. Q1 FY22 has again witnessed some challenges but the situation is not as severe as previous lockdown and is expected to normalize soon. The Company expects Freight division to perform well driven by expected pickup in activity and MSME sector. The Supply chains segment is expected to grow as Auto production picks up and as TCI adds new customers. We have increased our estimates to factor in the strong performance and improved outlook. Currently, the stock is trading at a 10x FY24E EPS. We roll forward our estimates to FY24 and maintain our BUY rating on the stock for revised target price of Rs.462 (13x FY24E EPS). We expect TCI to benefit significantly from its multi-modal logistics solutions.

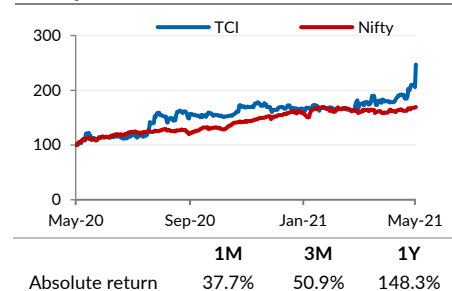
Exhibit 1: Result table (Consolidated)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	yoy (%)	Q3 FY21	qoq (%)
Total sales	8,927	6,678	33.7	8,071	10.6
EBITDA	886	586	51.3	797	11.2
EBITDAM (%)	9.9	8.8	116 bps	9.9	5 bps
Depreciation	280	208	35.1	233	20.4
Interest	61	85	(27.9)	63	(3.8)
Other income	113	68	66.6	46	145.8
PBT	658	361	82.1	547	20.3
Tax	81	57	41.8	65	23.8
Adjusted PAT	672	361	86.5	523	28.6
Exceptional item	26	0	NA	104	NA
Reported PAT	646	361	79.2	418	54.4
PATM (%)	7.5	5.4	213 bps	6.5	106 bps
EPS (Rs.)	8.4	4.7	79.2	5.4	54.4

Stock data (as on May 26, 2021)

Nifty	15,301
52 Week h/l (Rs.)	367 / 146
Market cap (Rs./USD mn)	28265 / 388
Outstanding Shares (mn)	77
6m Avg t/o (Rs. mn)	21
Div yield (%)	0.7
Bloomberg code:	TRPC IN
NSE code:	TCI

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	66.71%
FII+DII	13.17%
Others	20.12%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	461	329

Financial Summary (Consolidated)

(Rs. mn)	FY22E	FY23E	FY24E
Revenues	32,286	37,787	43,975
yoy growth (%)	15.2	17.0	16.4
EBITDA	3,118	3,699	4,426
EBITDAM (%)	9.7	9.8	10.1
Adjusted PAT	1,879	2,277	2,739
yoy growth (%)	17.3	21.2	20.3
EPS (Rs.)	24.4	29.5	35.5
P/E (x)	15.1	12.4	10.3
EV/EBITDA (x)	10.0	8.3	6.7
RoE	14.9	15.8	16.4

Δ in earnings estimates

	FY22e	FY23e	FY24e
EPS (New)	24.4	29.5	35.5
EPS (Old)	21.1	27.5	-
% change	15.5	7.4	-

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CON-CALL HIGHLIGHTS

- ✓ **Freight division:** (1) SMEs that contributes ~33% of the business are facing some challenges but it is not very deep yet. (2) SME forms 80% of the LTL segment and 20% of FTL segment. FTL: LTL mix stood at 67:33% and the company targets to move it to 60:40% by FY25 (3) The company expects a lot of opportunities in the agri segment. A lot of grain movement, edible oil was seen during first wave (4) Targets RoCE of 20% versus 17-18% now.
- ✓ **Supply chain solution:** (1) The Automotive segment forms ~80% of the supply chain segment. However, the company has only 10% market share in the total automotive supply chain solution and hence expect huge opportunities for growth in this segment. The passenger vehicle segment has not fared well in FY21 while commercial auto comprising of construction equipment and agri equipment has done reasonably well. (3) The company has 12 mn sqft of grade A warehouse and 250 acres as yard area under management which can be used for multiple purposes such as storage of Finished goods, Pre-delivery, last mile delivery, invoicing etc.
- ✓ **Seaways division:** (1) The coastal shipping consists of only 6% of total transportation modal of India and hence has good opportunity for growth. The company currently owns 6 ship (sold 1 ship in Feb21) where 2 are operating on the west coast and 4 on the east coast (2) The company has postponed the purchase of ship to FY22 as the prices for a ship has risen substantially. (3) The company owns 5,000-6,000 containers out of 8,000 containers. (4) The margins are depressed due to higher depreciation and rise in fuel price but will be maintained going forward (5) The company did not witness any dry docks and the freight rates increased sharply which benefited the company.
- ✓ **Industry:** (1) The customers are going more for online shopping resulting into more pressure on supply chain. The customers are asking more services like multi modal solutions, warehousing. (2) The government continues to focus on developing the logistics sector through the introduction of GST, E-Way bill, introduction of National Logistics policy along with infra push like MMLP and DFCC. (3) The government is building a lot of logistics network with neighboring countries which the company would leverage going forward.
- ✓ **Guidance:** The company in FY22 targets to grow topline by 15% and profit by 20%. (2) The company has also guided for EBITDA margins of 4-5% in Freight division, 10-12% in Supply chain solution and 25% in Seaways division. (3) The business activity for the company was largely normal in the month of April but there was a larger impact in the month of May due to restrictions because second wave of COVID. The company expects gradual recovery from June and operations to normalize from July-August.
- ✓ **Capex:** The company has planned for a capex of Rs.2.25 bn for FY22 of which Rs.800 mn will be utilized for purchasing a ship (expected in fag end of the year), Rs.340 mn for acquisition of trucks and rakes (mostly by Q2), Rs.640 mn for establishing Hub centers & small warehouses and Rs.400 mn for adding containers. It has added 2 rakes in recent past and plans to add 3rd soon. 50% of the funding of capex will be through internal accrual and balance via debt.
- ✓ **Cold chain solution:** The company expects the coal chain solution business has huge growth potential as it is in a very nascent stage and expects it to grow by 25-50% for the coming years. The company would add more infrastructure in this business. The company has formed a JV with Mitsui where it has sold 20% stake in its TCI cold chain subsidiary, valuing the subsidiary at Rs.635 mn. Mitsui has capabilities to introduce to international clients as business partners. Generally, Cold chain business has EBITDA margins of around 15-25%.
- ✓ **Other Highlights:** (1) The company is in position to take good benefit of the DFCC as they own containers and has a JV in place with CONCOR. (2) The payments to vendor by the company is within 20 days as against 60-80 days for the competitor. (3) There has been no major fall in freight rates in April & May 2021 given the high fuel prices.

Exhibit 2: Segmental performance (Consolidated)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	yoy (%)	Q3 FY21	qoq (%)
Revenue Breakup					
Freight Division	4,763	3,609	32.0	4,149	14.8
Supply chain Solution	3,041	2,142	42.0	3,011	1.0
Seaways Division	1,301	1,046	24.4	1,038	25.4
Energy Division	5	6	(10.2)	3	103.8
Net Revenue	8,927	6,678	33.7	8,071	10.6
Share in Revenue					
Freight Division	52.3	53.1	-77 bps	50.6	168 bps
Supply chain Solution	33.4	31.5	189 bps	36.7	-334 bps
Seaways Division	14.3	15.4	-109 bps	12.7	163 bps
Energy Division	0.1	0.1	-3 bps	0.0	3 bps
EBIT Breakup					
Freight Division	190	123	54.5	173	9.3
Supply chain Solution	209	107	96.2	200	4.3
Seaways Division	306	225	35.8	235	30.1
Energy Division	(1)	(0)	NA	(3)	NA
EBIT Margin (%)					
Freight Division	4.0	3.4	58 bps	4.2	-20 bps
Supply chain Solution	6.9	5.0	190 bps	6.7	22 bps
Seaways Division	23.5	21.5	196 bps	22.6	84 ps

Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22E	FY23E	FY24E
Share capital	154	154	154	154
Reserve & Surplus	11,543	13,191	15,198	17,668
Total shareholder's funds	11,697	13,345	15,353	17,822
Minority Interest	86	86	86	86
Debt	2,847	3,397	3,052	2,707
Deferred tax liabilities/(assets)	410	430	457	487
TOTAL	15,040	17,259	18,948	21,102
Net block	7,409	8,655	8,973	9,168
Capital WIP	690	700	650	620
Long term investments	1,500	1,575	1,650	1,725
Other long-term assets	524	531	621	723
Inventories	71	88	104	120
Debtors	5,110	5,927	6,729	7,831
Cash & cash equivalents	395	436	782	1,327
Loans & advances	1,689	1,930	2,259	2,869
Total current liabilities	2,348	2,582	2,820	3,281
Net current assets	4,918	5,798	7,054	8,867
TOTAL	15,040	17,259	18,948	21,102

Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22E	FY23E	FY24E
Revenue	28,024	32,286	37,787	43,975
Operating profit	2,612	3,118	3,699	4,426
Depreciation & Amortization	928	1,003	1,182	1,305
PBIT	1,684	2,115	2,517	3,121
Interest expense	267	275	284	259
Other income	255	285	348	452
Exceptional items	131	-	-	-
Profit before tax	1,672	2,126	2,581	3,314
Taxes	238	425	516	834
Adj. Net profit	1,602	1,879	2,277	2,739

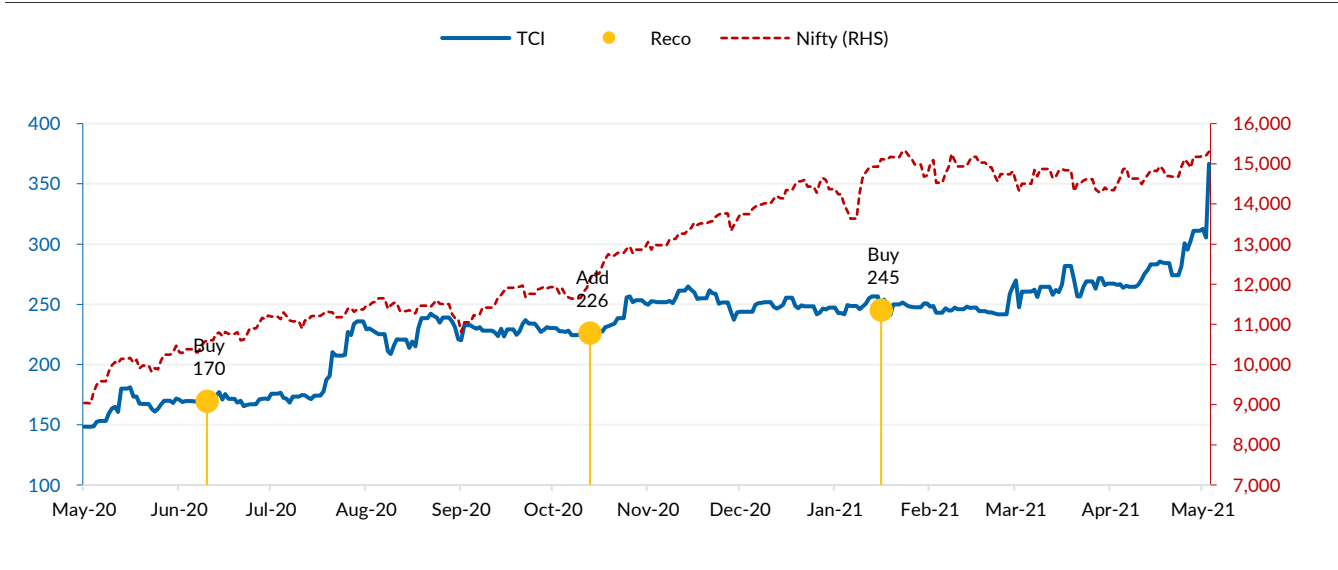
Exhibit 1: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22E	FY23E	FY24E
PBT	1,672	2,126	2,581	3,314
Depreciation	928	1,003	1,182	1,305
Others	12	(11)	(64)	(193)
Tax Paid	(238)	(425)	(516)	(834)
Changes in Working Capital	340	(840)	(909)	(1,268)
Net Cash from Operations	2,714	1,853	2,273	2,324
Capex	(1,094)	(2,260)	(1,450)	(1,470)
Change in Investment	(146)	(75)	(75)	(75)
Others	0	278	258	351
Net Cash from Investing	(1,080)	(2,057)	(1,267)	(1,194)
Change in debt	(1,339)	550	(345)	(345)
Change in Equity	79	0	(0)	(0)
Others	(239)	(306)	(314)	(239)
Net Cash from Financing	(1,498)	244	(659)	(584)
Net Change in Cash	136	41	347	545

Exhibit 2: Ratio analysis (Consolidated)

Y/e 31 Mar	FY21	FY22E	FY23E	FY24E
PROFITABILITY RATIOS				
EBITDA Margin (%)	9.3	9.7	9.8	10.1
Adjusted net margin (%)	5.3	5.8	6.0	6.2
Return on equity (%)	14.5	14.9	15.8	16.4
EFFICIENCY RATIOS				
Asset Turnover	3.5	3.5	3.9	4.5
Debt to equity	0.2	0.3	0.2	0.2
Net debt to equity	0.2	0.2	0.1	0.1
Debtor days	6.3	7.7	8.9	12.0
Inventory days	66.6	67.0	65.0	65.0
Payable days	0.9	1.0	1.0	1.0
PER SHARE DATA				
Diluted EPS (Rs)	20.8	24.4	29.5	35.5
Book value per share (Rs)	151.7	173.1	199.1	231.2
DPS (Rs)	2.5	3.0	3.5	3.5
VALUATION RATIOS				
P/E	17.7	15.1	12.4	10.3
P/BV	2.4	2.1	1.8	1.6
EV/EBITDA	11.8	10.0	8.3	6.7
Dividend Yield (%)	0.7	0.8	1.0	1.0

Recommendation Tracker



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