

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	744
12 month price target (INR)	875
Market cap (INR bn/USD bn)	57/0.7
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

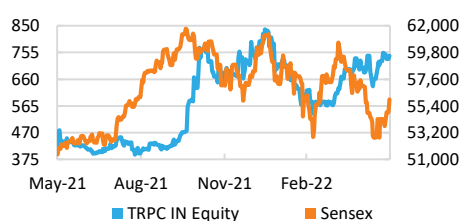
	Above	In line	Below
Profit		●	
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Revenue	28,024	32,567	36,775	41,729
EBITDA	2,612	4,087	4,497	5,103
Adjusted profit	1,586	2,928	3,470	4,047
Diluted EPS (INR)	20.1	37.1	44.0	51.3
EPS growth (%)	1.5	84.6	18.5	16.6
RoAE (%)	13.7	22.5	22.2	21.7
P/E (x)	37.0	20.1	16.9	14.5
EV/EBITDA (x)	22.5	13.9	12.2	10.0
Dividend yield (%)	0.3	0.5	0.6	0.7

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

A steady end to FY22; outlook robust

Transport Corporation of India (TCI) posted another record quarter with seaways leading the pack. Following close on its heels, the freight division performed strongly, as freight rates edged higher by 5-10%. Despite a high base, revenue grew 5% QoQ with margins also inching up. PAT, though marginally down QoQ, was still up 38% YoY.

Over the past five years, TCI's strategy of moving more towards LTL (from FTL) has paid-off handsomely. Going ahead, an even higher mix towards LTL and recovery in the supply chain business should largely offset any margin headwinds from seaways. At 1Y forward PE of 17x, TCI provides valuation comfort. Maintain 'BUY' with unchanged TP of INR875, implying 20x FY23E.

Making great strides; FY23E to test margin resilience

TCI posted robust Q4FY22 performance, broadly in-line with our estimates. Standalone revenue was flat YoY/up 5% QoQ, versus our expectations of a flat top-line. The performance was broad based – freight posted a strong jump in revenue, however, the profitability march was led by yet another outperformance from the seaways. EBITDA margins expanded ~350bp YoY/15bp QoQ, coming in at TCI's all-time high of 14.2%. Going ahead, we expect better freight and SCM performance to negate the sluggishness in the seaways business.

Business mix change to provide re-rating impetus

Our investment rationale for TCI is based on its underlying business mix improving over the next three-four years. The company 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 FY23E), which should aid margin expansion and RoCE in the medium-term. However, a greater-than-anticipated drop in the seaways division's earnings could potentially be a dampener for FY23E. Nonetheless, TCI's focus on establishing multi-modal capabilities will reflect in its growth over the next four-five years.

Outlook and valuation: One of the better performers; retain 'BUY'

Despite a strong rally, TCI at one year forward PE of 17x provides valuation comfort. TCI has been one of the better performers within the Indian logistics sector; as a result has seen re-ratings in the past two years. Nonetheless, we still find value and retain our 'BUY/SO' rating with an unchanged TP of INR875; implying 20x FY23E.

Financials

Year to March	Q3FY22	Q4FY21	% Change	Q2FY22	% Change
Net Revenue	7,593	7,966	(4.7)	7,365	3.1
EBITDA	1,069	856	24.9	988	8.1
Adjusted Profit	776	560	38.5	684	13.5
Diluted EPS (INR)	10.1	7.3	38.5	8.9	13.5

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Total operating income	28,024	32,567	36,775	41,729
Cost of Goods Sold	22,972	25,766	29,164	33,096
Employee costs	1,455	1,700	1,835	2,079
Other expenses	984	1,013	1,280	1,451
EBITDA	2,612	4,087	4,497	5,103
Depreciation	928	1,130	1,141	1,270
Less: Interest expense	267	128	93	114
Add: Other income	255	199	344	511
Profit before tax	1,672	3,028	3,607	4,231
Prov for tax	238	377	441	518
Less: Other adjustment	71	277	304	335
Reported profit	1,504	2,928	3,470	4,047
Less: Excp.item (net)	82	0	0	0
Adjusted profit	1,586	2,928	3,470	4,047
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	20	37	44	51
DPS (INR)	2.3	4.1	4.7	5.5
Tax rate (%)	14.3	12.4	12.2	12.3

Important Ratios (%)

Year to March	FY21A	FY22A	FY23E	FY24E
EBITDA margin (%)	9.3	12.6	12.2	12.2
PBT growth (% YoY)	16.2	81.1	19.1	17.3
Net profit margin (%)	5.7	9.0	9.4	9.7
Revenue growth (% YoY)	3.1	16.2	12.9	13.5
EBITDA growth (% YoY)	8.6	56.5	10.0	13.5
Asset turnover (X)	1.9	2.1	2.1	2.1
Adj. profit growth (%)	3.6	84.6	18.5	16.6
EBIT margin (%)	6.0	9.1	9.1	9.2

Assumptions (%)

Year to March	FY21A	FY22A	FY23E	FY24E
GDP (YoY %)	(4.0)	7.0	7.0	0
Repo rate (%)	3.0	4.0	4.0	0
USD/INR (average)	75.0	73.0	73.0	0
Freight margin (%)	4.1	4.5	4.7	4.7
SCM margin (%)	10.7	10.7	11.5	11.8
Real. per DWT (INR)	1,07,635	90,000	90,000	0
Freight div. (% YoY)	(7.8)	19.2	9.9	0
SCM growth(% YoY)	1.1	7.2	18.0	0
Seaways (% YoY)	7.2	44.4	7.5	0

Valuation Metrics

Year to March	FY21A	FY22A	FY23E	FY24E
Diluted P/E (x)	37.0	20.1	16.9	14.5
Price/BV (x)	5.0	4.1	3.5	2.9
EV/EBITDA (x)	22.5	13.9	12.2	10.0
Dividend yield (%)	0.3	0.5	0.6	0.7

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Share capital	154	155	155	155
Reserves	11,543	14,148	16,872	20,068
Shareholders funds	11,697	14,303	17,027	20,222
Minority interest	86	274	274	274
Borrowings	2,555	962	1,173	1,006
Trade payables	759	851	911	1,035
Other liab & prov	2,272	1,586	1,162	1,162
Total liabilities	17,388	18,041	20,565	23,718
Net block	8,015	7,983	7,041	5,914
Intangible assets	31	30	6	6
Capital WIP	52	73	73	73
Total fixed assets	8,099	8,087	7,120	5,993
Non current inv	1,500	1,780	1,780	1,780
Cash/cash equivalent	395	745	3,121	6,578
Sundry debtors	5,110	5,083	6,073	6,890
Loans & advances	124	13	13	13
Other assets	1,608	2,166	2,127	2,132
Total assets	17,388	18,041	20,565	23,718

Free Cash Flow (INR mn)

Year to March	FY21A	FY22A	FY23E	FY24E
Reported profit	1,504	2,928	3,470	4,047
Add: Depreciation	928	1,130	1,141	1,270
Interest (net of tax)	179	86	62	77
Others	255	(302)	(618)	(808)
Changes in WC	181	(163)	(1,935)	(699)
Operating cash flow	3,047	3,680	2,121	3,886
Less: Capex	(1,241)	(707)	(174)	(142)
Free cash flow	1,807	2,973	1,947	3,744

Key Ratios

Year to March	FY21A	FY22A	FY23E	FY24E
RoE (%)	13.7	22.5	22.2	21.7
RoCE (%)	13.7	21.1	21.8	21.7
Receivable days	65	57	55	57
Payable days	9	9	9	9
cash conversion cycle	57	49	47	49
Working cap (% sales)	14.6	15.0	17.4	17.0
Gross debt/equity (x)	0.2	0.1	0.1	0
Net debt/equity (x)	0.2	0	(0.1)	(0.3)
Interest coverage (x)	6.3	23.0	36.0	33.5

Valuation Drivers

Year to March	FY21A	FY22A	FY23E	FY24E
EPS growth (%)	1.5	84.6	18.5	16.6
RoE (%)	13.7	22.5	22.2	21.7
EBITDA growth (%)	8.6	56.5	10.0	13.5
Payout ratio (%)	11.9	11.0	10.6	10.6

TRANSPORT CORPORATION

Exhibit 1: Quarterly Snapshot

Financial snapshot - (Standalone)								
INR mn	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %	FY22	FY23E	FY24E
Revenues	7,979	7,966	0.2	7,593	5.1	29,046	32,726	37,072
Operating expenses	6,144	6,416	(4.2)	5,839	5.2	22,552	25,467	28,845
Employee Benefit Expenses	422	425	(0.7)	422	0.0	1,638	1,763	1,997
Others	277	271	2.5	264	5.0	952	1,209	1,369
Total expenditure	6,843	7,111	(3.8)	6,525	4.9	25,141	28,439	32,211
EBITDA	1,136	856	32.8	1,069	6.3	3,904	4,287	4,861
Depreciation	360	268	34.3	241	49.2	1,076	1,086	1,215
EBIT	777	588	32.1	828	(6.2)	2,829	3,200	3,646
Interest	19	56	(66.1)	22	(11.6)	109	80	99
Other income	78	105	(26.4)	71	9.0	311	344	511
Add: Exceptional items	0	35	NA	0	N/A	0	0	0
Profit Before Tax	835	602	38.8	878	(4.8)	3,031	3,464	4,059
Less: Provision for Tax	104	73	42.2	102	2.7	357	398	467
Reported Profit	731	529	38.3	776	(5.8)	2,674	3,066	3,592
Adjusted Profit	731	529	38.3	776	(5.8)	2,674	3,066	3,592
Adjusted Diluted EPS	9.5	6.9	38.3	10.1	(5.8)	34.8	39.9	46.8
P/E (x)						20.1	16.9	14.5
As % of net revenues								
Operating expenses	77.0	80.5		76.9		77.6	77.8	77.8
Staff expenses	5.3	5.3		5.6		5.6	5.4	5.4
Other expenses	3.5	3.4		3.5		3.3	3.7	3.7
EBITDA	14.2	10.7		14.1		13.4	13.1	13.1
Net profit	9.2	6.6		10.2		9.2	9.4	9.7

Source: Company, Edelweiss 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	7.60	Dimensional Fun	0.81
Sundaram AMC	0.90	Acadian AMC	0.03
IDFC AMC	0.88	Taurus	0.02
LIC MF	0.88	American Centur	0.02
TATA AMC	0.87	Wisdom Tree Inv	0.01

*Latest public data

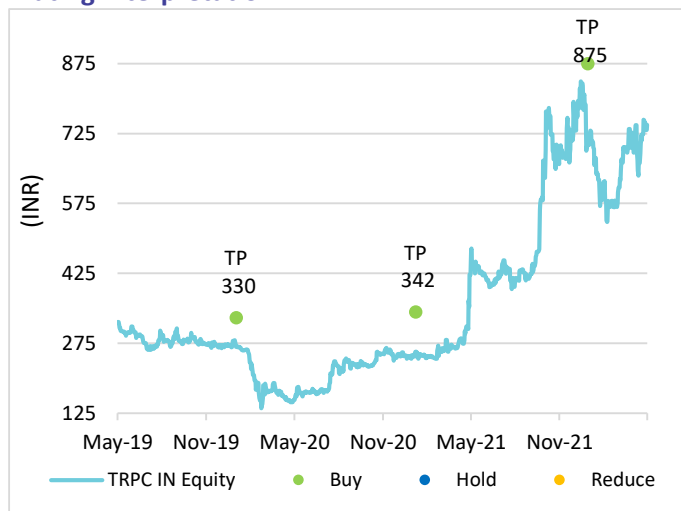
Recent Company Research

Date	Title	Price	Reco
27-Jan-22	In a new zone; <i>Result Update</i>	730	Buy
29-Oct-21	Entering a new orbit; <i>Result Update</i>	629.4	Buy
04-Aug-21	Holding up in rough environment; <i>Result Update</i>	446.25	Buy

Recent Sector Research

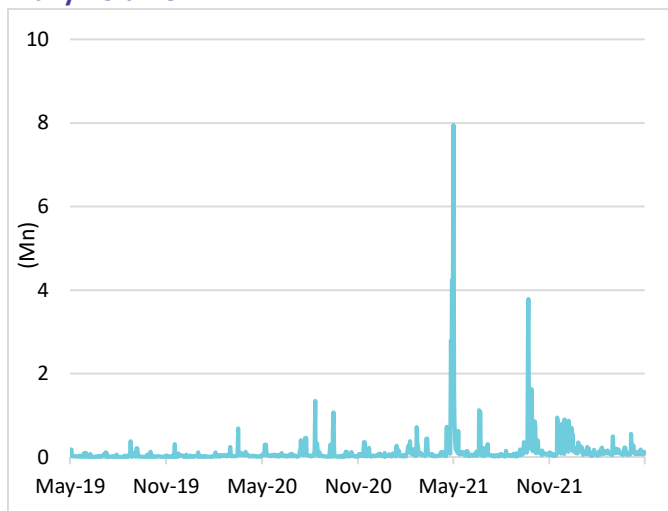
Date	Name of Co./Sector	Title
28-May-22	VRL Logistics	Load's gone: Moving apace to new orbit; <i>Result Update</i>
27-May-22	TCI Express	Strong earnings; valuations stretched; <i>Result Update</i>
20-May-22	Container Corporation	Shaping up well for DFC potential; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	196	55	18	271
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	238	42	5	285

*2 stocks under review

Rating Rationale

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

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