Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Transport Corporation of India Ltd

Fairly valued; Downgrade to Hold

Stock Update

Result Update

Logistics	Sharekhan code: TCI

Reco/View: Hold ↓	CMP: Rs. 977	Price Target: Rs. 1,030 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↓	

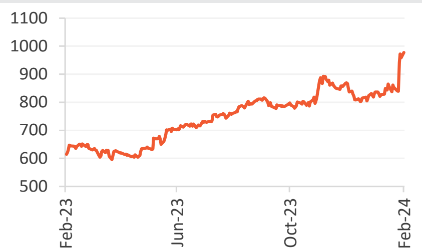
Company details

Market cap:	Rs. 7,589 cr
52-week high/low:	Rs. 1080/591
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	68.9
FII	2.6
DII	12.8
Others	15.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.7	11.4	28.0	59.1
Relative to Sensex	17.1	1.0	19.3	40.5

Sharekhan Research, Bloomberg

Summary

- We downgrade TCI Limited to Hold with a revised PT of Rs. 1030, rolling forward our SOTP-based valuation multiples to FY2026E earnings, partially getting offset by a downward revision in estimates.
- TCI reported marginally lower than expected consolidated revenues while OPMs lagged due to a decline in OPMs in Seaways and freight. SCM business performance remained strong.
- Management trimmed down FY2024 revenue and PAT growth guidance to 8-10% and would be targeting 15-20% growth in FY2025. Expects freight to recover in FY2025 while SCM remains strong.
- Its delivery of two new ships remains on track for CY2026. Seaways may report a decline in FY2024 and be flattish in FY2025.

Transport Corporation of India Limited (TCI) reported marginal lower-than-expected consolidated revenue at Rs. 1002 crore (up 3.7% y-o-y), aided by healthy revenue growth in SCM (up 16.4% y-o-y) while freight remained flattish (up 0.6% y-o-y) and Seaways declined (down 16.2% y-o-y). Concor JV and cold chain business reported healthy 11% y-o-y and 66% y-o-y revenue growth. Consolidated OPM at 10% (down 187 bps y-o-y) came in lower than our estimate of 10.8% on account of a decline in margins in Seaways (down 416 bps y-o-y) and freight (down 134 bps y-o-y), while SCM (up 43 bps y-o-y) remained stable. Consolidated adjusted net profit decline of 7% y-o-y at Rs. 79 crores was aided by higher income from the JV (Transystem reported a 79% y-o-y jump in PAT). For FY2024, management trimmed down its overall topline and bottom line growth guidance to 8-10% y-o-y as the freight segment is expected to see flattish to marginal growth while Seaways may see a y-o-y dip. For FY2025, it would be targeting 10-15% y-o-y growth with expectation of growth revival in freight and sustained 15-20% y-o-y growth in SCM business. The delivery of two new ships at a cost of Rs. 300 crores, remain on track in Q4FY2026 and Q2FY2027, respectively.

Key positives

- SCM business's revenue grew 14% y-o-y to Rs. 364 crore. It reported stable OPM at 9.7% (up 43 bps y-o-y and 12 bps q-o-q).
- Transystem JV reported 41% y-o-y growth in revenue and 79% y-o-y growth in net profit

Key negatives

- Freight business reported almost flat revenue growth both y-o-y and q-o-q. OPMs in freight declined by 134 bps y-o-y and 28 bps q-o-q on account of the absence of volume growth.
- Seaways business saw a 15% y-o-y dip in revenues along with a correction in OPMs (down 416 bps y-o-y and 180 bps q-o-q)

Management Commentary

- Management trimmed down its topline and bottom-line growth guidance for FY2024 to 8-10% y-o-y as against earlier guidance of 10-15% y-o-y. For FY2024, freight segment is expected to see flattish to marginal 2-5% y-o-y growth, Seaways may not be able to achieve last year's topline while SCM is expected to see 15-20% y-o-y growth.
- It targets 10-15% topline and bottom-line growth guidance for FY2025. For FY2025, freight growth would be relatively higher due to an increase in LTL contribution, Seaways to be flat on account of dry docks, while SCM is expected to see 15-20% y-o-y growth led by rural consumption and acquisition of large contracts in warehousing.
- The capex target for FY2024 is Rs. 275 crore, and it expects to incur around Rs. 250 crore capex per annum over the next 2-3 years.

Revision in estimates – We have lowered our net earnings estimates for FY2024-FY2026 by 5-6%, factoring in slower freight and Seaways business growth.

Our Call

Valuation – Downgrade to Hold with a revised PT of Rs. 1030: TCI is expected to witness a softer demand environment in its freight business in the near term in line with industry peers, while Seaways faces pressures on account of Red Sea issues and a competitive environment. However, its SCM business is expected to remain strong. The addition of two new ships in Seaways is expected to start contributing post-FY2026. TCI's multi-modal capabilities and exposure to almost all major end-user industries places it in a much more comfortable position vis-à-vis its peers. However, the stock has run up 22% since our last report dated November 2, 2023, and is currently trading at a P/E of 19x/17x its FY2025E/FY2026E earnings, higher than its historical average. Hence, we downgrade the stock to Hold with a revised SOTP-based price target (PT) of Rs. 1030 as we roll forward our valuation multiples to FY2026E earnings, which is partially getting offset by a downward revision in estimates.

Key Risks

A sustained weak macroeconomic and auto industry environment can lead to a downward revision in net earnings.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	3,782.6	3,974.2	4,497.8	5,031.7
OPM (%)	11.2	10.6	10.9	10.8
Adjusted PAT	321.4	341.3	390.2	436.6
% YoY growth	11.0	6.2	14.3	11.9
Adjusted EPS (Rs.)	41.6	44.2	50.5	56.5
P/E (x)	23.5	22.1	19.4	17.3
P/B (x)	4.4	3.7	3.1	2.7
EV/EBITDA (x)	17.9	18.0	15.5	13.9
RoNW (%)	20.5	18.4	17.7	16.9
RoCE (%)	16.3	12.9	12.8	12.0

Source: Company; Sharekhan estimates

PAT miss led by lower-than-expected OPMs

Transport Corporation of India reported consolidated net revenues of Rs. 1002 crore (up 3.7% y-o-y, up 0.9% q-o-q), which was 3% below our estimate. The revenues from freight were up 0.6% y-o-y (+0.8% q-o-q) at Rs. 486 crore. Supply chain management revenues were up 16.4% y-o-y (-0.6% q-o-q) at Rs. 388 crore and Seaways revenues were down by 16.2% y-o-y (+5.3% q-o-q) at Rs. 143 crore. Consolidated OPM at 10.0% (-187bps y-o-y, -14bps q-o-q) was lower than our estimate of 10.8% owing to lower gross margins (down 83 bps y-o-y). Lower OPM led to a consolidated operating profit decline of 12.7% y-o-y (down 0.5% q-o-q) at Rs. 99.9 crore, which was 10% lower than our estimate. Weak operational performance was partially offset by higher income from JVs (Rs. 18.2 crore versus Rs. 10.2 crore/ Rs. 20.2 crore in Q3FY2023/Q2FY2024). Consequently, consolidated adjusted net profit declined by 7.4% y-o-y (-8.7% q-o-q) at Rs. 79.4 crore, which was 15% lower than our estimate.

Key Conference Call Takeaways -

- **Guidance:** Management trimmed down its topline and bottom-line growth guidance for FY2024 to 8-10% y-o-y as against earlier guidance of 10-15% y-o-y on account of lower growth during 9MFY2024. For FY2024, the freight segment is expected to see flattish to marginal 2-5% y-o-y growth; Seaways may not be able to achieve last year's topline, while SCM is expected to see 15-20% y-o-y growth. However, it targets 10-15% topline and bottom-line growth guidance for FY2025. For FY2025, freight growth would be relatively higher due to increase in LTL contribution, Seaways to be flat on account of dry docks while SCM is expected to see 15-20% y-o-y growth led by rural consumption and acquisition of large contracts in warehousing.
- **Outlook:** In the last few months, there has been a softening of core sectors; infrastructure and engineering showed signs of slowing down while the impact of inflation was felt in the consumer sector. October month saw high demand led by stocking up in anticipation of festive demand although the same got tapered down in ensuring months. However, Q4FY2024 is expected to be the best quarter for the company. The budget's focus on infrastructure investments and developing three new corridors are positive takeaways for the sector.
- **Freight:** The segment witnessed more or less flattish growth and margin compression led by lower fixed cost absorption. There was a general slowdown in the freight market along with competition in the LTL segment. The company opened 30 new branches during 9MFY2024 and targets 50 new branch additions for FY2024. The LTL business share did not move up as expected, so it has delayed LTL business share target of 40% to FY2025 as against FY2024 earlier.
- **SCM:** The segment did well, with 14% topline and 24% PAT growth. The expansion in auto finished goods helped the performance. The tractors segment witnessed slightly lower demand, while other segments within auto are doing well. The company is in the process of acquiring rakes with new designs.
- **Seaways:** The segment was affected by pressure on freight rates due to competitive environment.
- **JVs:** Rail JV reported 6% growth during 9MFY2024 while cold chain saw 25-26% y-o-y growth with addition of 75 new trucks. Transystem JV reported 50% growth in topline. All Japanese OEMs have been doing well contributing to the growth in Transystem revenues.
- **Capex:** The capex target for FY2024 is Rs. 275 crore, and it expects to incur around Rs. 250 crore capex per annum over the next 2-3 years.

Results (Consolidated) **Rs cr**

Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Net sales	**1002.0**	**966.7**	**3.7%**	**993.5**	**0.9%**
Other income	9.5	7.0	36.1%	11.3	-15.9%
Total income	1011.5	973.7	3.9%	1004.8	0.7%
Total expenses	902.1	852.3	5.8%	893.1	1.0%
Operating profit	**99.9**	**114.4**	**-12.7%**	**100.4**	**-0.5%**
Depreciation	33.1	31.4	5.4%	31.1	6.4%
Interest	3.5	2.6	34.1%	3.4	2.9%
Exceptional items	0.0	0.0	-	0.0	-
Profit Before Tax	**72.8**	**87.4**	**-16.7%**	**77.2**	**-5.7%**
Taxes	10.8	11.0	-2.2%	9.6	12.5%
PAT	62.0	76.4	-18.8%	67.6	-8.3%
Minority Interest/JV income	-17.4	-9.4	85.9%	-19.4	-10.3%
Adjusted PAT	**79.4**	**85.7**	**-7.4%**	**87.0**	**-8.7%**
EPS (Rs.)	10.3	11.1	-7.4%	11.3	-8.7%
Margins					
OPM (%)	10.0%	11.8%	-187 bps	10.1%	-14 bps
NPM (%)	7.9%	8.9%	-94 bps	8.8%	-83 bps
Tax rate (%)	14.8%	12.6%	220 bps	12.4%	240 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Strong growth outlook led by changing consumer preferences and macro pick-up**

The logistics industry had been one of the key sectors that showed a strong revival post-COVID-19 pandemic, which affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail freight volume, domestic port volume, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business, led by user industries' preference towards credible supply chain management in the wake of the impact of COVID-19 on supply chain operations. Further, the third-party logistics (3PL) industry has seen a faster improvement in operations, led by segments such as e-commerce, pharma, and FMCG. Hence, we upgrade our view on the logistics sector to Positive from Neutral.

■ **Company outlook - Multi-modal capabilities a distinctive advantage**

TCI has a strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and supply-chain businesses, with over six decades of experience, give it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

■ **Valuation - Downgrade to Hold with a revised price target of Rs. 1030**

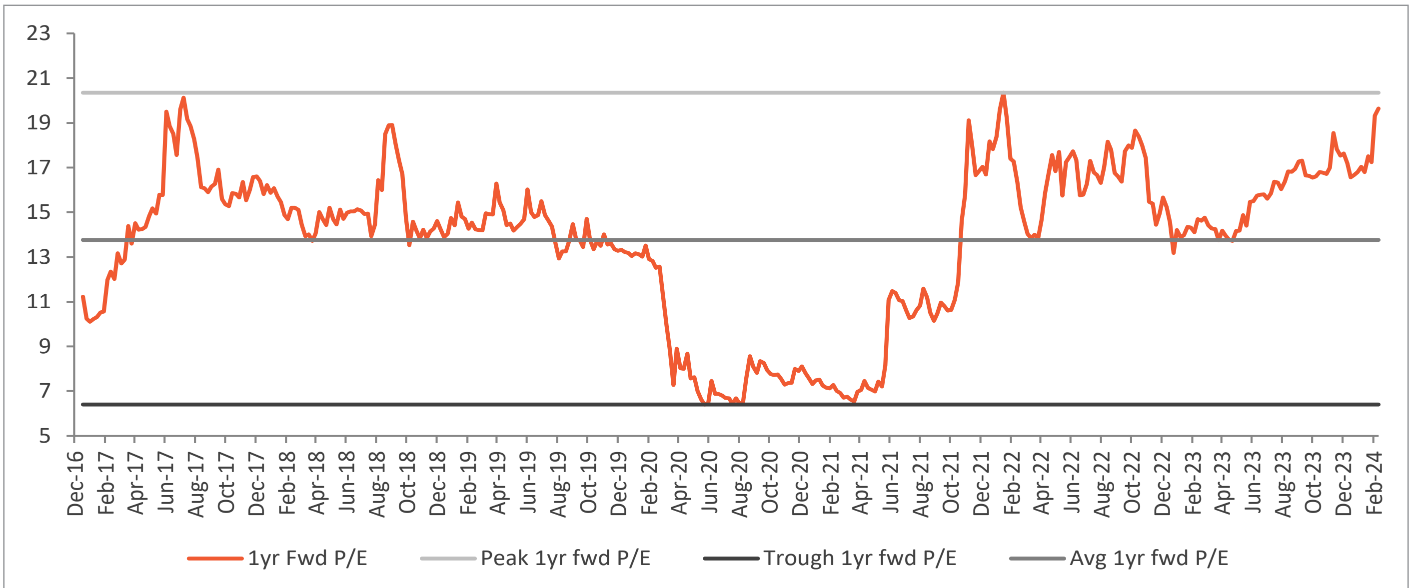
TCI is expected to witness a softer demand environment in its freight business in the near term in line with industry peers, while Seaways faces pressures on account of Red Sea issues and a competitive environment. However, its SCM business is expected to remain strong. The addition of two new ships in Seaways is expected to start contributing post-FY2026. TCI's multi-modal capabilities and exposure to almost all major end-user industries place it in a much more comfortable position vis-à-vis its peers. However, the stock has run up 22% since our last report dated November 2, 2023, and is currently trading at a P/E of 19x/17x its FY2025E/FY2026E earnings, higher than its historical average. Hence, we downgrade the stock to Hold with a revised SOTP-based price target (PT) of Rs. 1030 as we roll forward our valuation multiples to FY2026E earnings, which is partially getting offset by a downward revision in estimates.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	10x EV/EBITDA on Mar26E	1096	142
SCM	12x EV/EBITDA on Mar26E	2783	360
Seaways	11x EV/EBITDA on Mar26E	2185	283
Less: Net Debt	FY2026E		-95
Value of core verticals		6795	879
Transystem JV	1x P/B	1165	151
Price Target (Rs.)			**1030**

Source: Company, Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
TCI	22.1	19.4	18.0	15.5	3.7	3.1	18.4	17.7
TCI Express	32.2	25.4	22.2	17.6	7.1	5.8	24.3	25.3
Mahindra Logistics	-	85.8	11.2	8.0	5.0	4.7	-10.4	6.4

Source: Company; Sharekhan Research

About company

TCI is India's leading integrated supply chain and logistics solutions provider with over six decades of experience. The company has an extensive pan-India network present across major districts. TCI has 12 mn. sq. ft. of warehousing space. The company has three broad business verticals. TCI Freight transports cargo on FTL/ LTL/small packages and consignments/over-dimensional cargo. TCI Supply Chain Solutions: The core service offerings are supply chain consultancy, inbound logistics, warehousing/distribution centre management, and outbound logistics. TCI Seaways: TCI Seaways owns six ships and caters to coastal cargo requirements for transporting containers and bulk cargo.

Investment theme

TCI has strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and the supply chain business with over six decades of experience, gives it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on Atmanirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

Key Risks

- Slowdown in the macroeconomy leading to a weak logistics industry outlook.
- High concentration on the automotive industry.
- Highly competitive industry.

Additional Data

Key management personnel

D P Agarwal	Chairman and Managing Director
Vineet Agarwal	Managing Director
Ashish Tiwari	Group Chief Financial Officer
Archana Pandey	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bhoruka Supply Chain Solutions Hol	44.28
2	Agarwal Dharmpal P	10.11
3	HDFC Asset Management Co. Ltd.	7.91
4	Agarwal Vineet	3.99
5	Agarwal Priyanka	3.82
6	Agarwal Urmila	2.39
7	Agarwal Chander	2.36
8	Tata Asset Management Pvt. Ltd.	1.4
9	INVESTOR EDUCATION & PROTECTN FD	1.25
10	Bang Nirmal Mishrilal	1.12

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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