

## Margins continue to expand...

TCI reported a strong set of Q4FY21 numbers. Revenues grew a strong 27% YoY (11% QoQ) to ₹ 797 crore. Seaways segment reported strong growth both sequentially (up 25%) and YoY (up 24%), followed by the freight division (up 18% QoQ, 20% YoY) and SCM division (flat QoQ, up 41% YoY, due to low base in Q4FY20). EBITDA margins expanded 147 bps YoY to 10.7%, mainly due to a combination of higher gross margins (19.5% vs. 19% in Q4FY20), lower employee to sales ratio (5.3% vs 6% in Q4FY20) and lower other expense ratio. The resultant EBITDA grew 48% YoY to ₹ 86 crore. Further, PAT grew 69% YoY to ₹ 53 crore (exceptional expense of ₹ 3.5 crore due to impairment in wind power plant and investment in a subsidiary, impacted profitability to certain extent).

## Higher online purchases leading to shifts in supply chains

FY21 heralded a shift in consumer behaviour, with increased social distancing norms and intermittent statewide lockdowns, the end-user adopting delayed gratification via online purchases vs. pre-pandemic instant gratification via purchases in stores. The shift has put pressure on supply chains across segments, which increasingly require agile networks that ensure higher inventory (requirement of larger warehouses), lower wastage (cold chains), multi-modal connectivity (can fine-tune costs and speed of delivery), higher tech integration (for providing real-time movement of goods), automation (for efficient handling of large number of SKUs), etc. From planning to execution, TCI with its 900 IT enabled owned offices, 9000 trucks and trailers, six coastal ships, multiple rakes and 12 mn sq feet of warehousing space, brings in integrated solutions for its customers.

## Planned capex to augment strong revenue growth

The management expects pickup in surface freight activity from H2 onwards (near festive season). Seaways division has been beneficiary of ongoing higher ocean freight realisation and better fleet utilisation. TCI saw growth in the e-commerce, FMCG sector along with demand revival in the automotive sector (~80% of SCM). The management expects to add another ship in Q4FY22 (₹ 80 crore) and also purchase containers, rakes and few trucks (₹ 120-140 crore) in FY22.

## Valuation and Outlook

On the balance sheet front, TCI reduced its gross debt by ₹ 130 crore in FY21, while generating ₹ 300 crore of CFO (by keeping a tight leash on working capital). Going forward also, we expect the healthy CFO generation to continue with a net-debt free b/s. The management expects an improvement in margins by 50-100 bps (via better product mix, tech integration and cost control measures), which together with higher asset turnover is expected to achieve return ratios of 16-17% (in the medium to long term). We value the stock at ₹ 490/share (SOTP basis) (earlier ₹ 320) and maintain **BUY** rating.



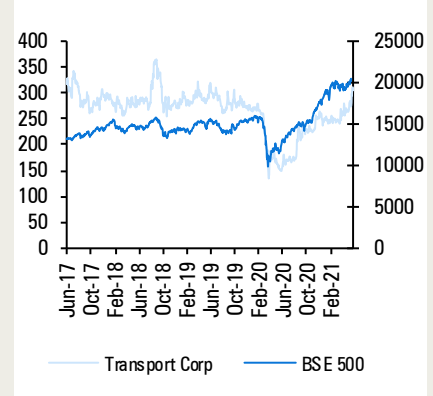
### Particulars

Market Cap. (₹ cr)	2,480
Total Debt (FY21) (₹ Cr)	234.7
Cash and Investment (FY21) (₹)	39.5
EV (₹ Crore)	2109.6
52 week H/L	366/145
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

### Key risks to our call

- Continued momentum in prices of diesel
- Slowdown in auto sector

### Price Performance



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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR
Revenues (₹ crore)	2,753.7	2,717.8	2,802.4	3,211.2	3,802.3	8.1
EBITDA (₹ crore)	249.5	240.5	261.2	330.8	399.2	11.2
Adjusted Net Profit (₹ crore)	144.4	142.4	147.1	211.3	266.0	14.4
EPS (₹)	18.8	18.6	19.2	27.6	34.7	
P/E (x)	17.9	18.2	17.4	12.2	9.7	
Price / Book (x)	2.9	2.6	2.2	1.9	1.6	
EV/EBITDA (x)	11.5	11.7	10.2	8.0	6.3	
RoCE (%)	14.2	12.4	13.3	15.6	17.0	
RoNW (%)	16.3	14.0	12.9	15.6	16.5	

Source: Company, ICICI Direct Research

**Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	796.6	705.1	625.7	27.3	715.2	11.4	YoY sharp upmove in revenues due to uptick in across segments
Operating Expenses	641.6	571.1	502.5	27.7	576.0	11.4	
Employee Expenses	42.5	42.3	40.8	4.2	35.9	18.2	
Administrative & Oth Expenses	27.1	27.5	24.5	10.5	27.8	-2.8	
Total Expense	711.1	640.9	567.7	25.3	639.8	11.1	
EBITDA	85.6	64.2	58.0	47.6	75.4	13.4	
EBITDA Margin (%)	10.7	9.1	9.3	147 bps	10.5	19 bps	Margins better than estimates due to better product mix, lower employee costs to sales ratio and lower expenses
Depreciation	26.8	20.9	19.7	36.2	22.0	21.6	
Interest	5.6	6.1	8.0	-29.8	5.8	-3.8	
Other Income	10.5	7.4	6.7	58.3	8.6	22.0	
Exceptional Gain/Loss	-3.5	0.0	0.0	0.0	-10.4	0.0	Booked an impairment loss due to change in classification of a ship to held for sale
PBT	60.2	44.6	37.0	62.7	45.8	31.4	
Total Tax	7.3	8.0	5.7	28.3	5.8	27.7	
PAT	52.9	36.6	31.3	69.0	40.1	32.0	In spite of exceptional expense, PAT grew above estimates
<b>Key Metrics</b>	<b>Q4FY21</b>	<b>Q4FY21E</b>	<b>Q4FY20</b>	<b>YoY</b>	<b>Q3FY21</b>	<b>QoQ</b>	
Freight Division	387.1	338.8	322.7	20.0	327.8	18.1	Operations have ramped up to 95% amid increased movement of goods, pent up demand
Supply Chain Solutions	292.4	270.1	207.8	40.7	292.9	-0.2	Revival in automotive demand and growth in e-commerce and FMCG
Seaways	130.1	102.5	104.6	24.4	103.8	25.4	Higher growth due to better cargo volumes at port

Source: Company, ICICI Direct Research

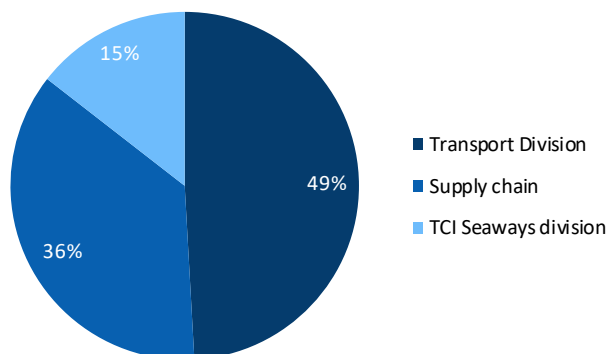
**Exhibit 1: Change in estimates**

(₹ Crore)	FY22E				FY23E				Comments
	FY21	Old	New	% Change	Old	New	% Change		
Revenue	2,802.4	3,201.5	3,211.2	0.3	3,741.4	3,802.3	1.6	Revenue estimates largely unchanged	
EBITDA	261.2	320.2	330.8	3.3	381.6	399.2	4.6		
EBITDA Margin (%)	9.3	10.0	10.3	30 bps	10.2	10.5	30 bps	Margin expectation improved due to strong performance in H2FY21 on the margin front	
PAT	147.1	214.7	211.3	-1.6	264.2	266.0	0.7		
EPS (₹)	19.2	28.0	27.6	-1.5	34.5	34.7	0.6		

Source: Company, ICICI Direct Research

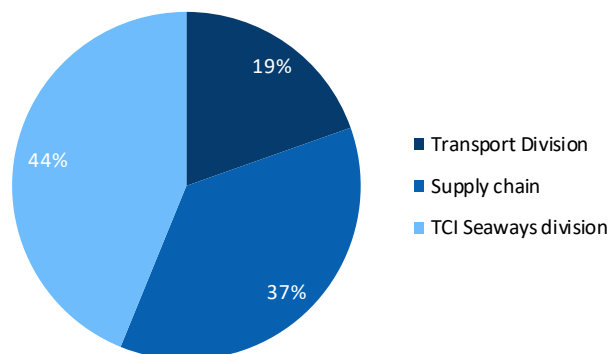
## Key Metrics

Exhibit 2: Segmental revenues (standalone) - FY20



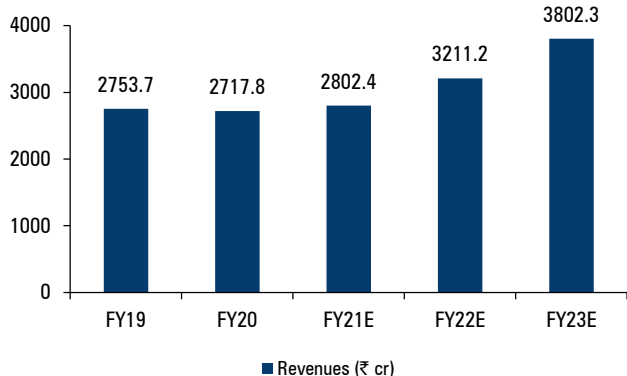
Source: ICICI Direct Research, Company

Exhibit 3: Segmental EBITDA (standalone) – FY20



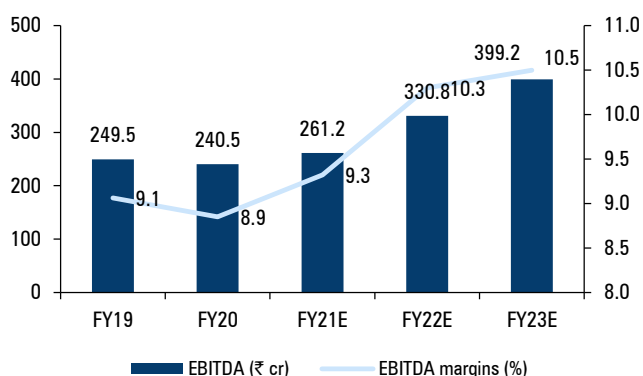
Source: ICICI Direct Research, Company

Exhibit 4: Revenue likely to grow at 17% (FY21-23) CAGR



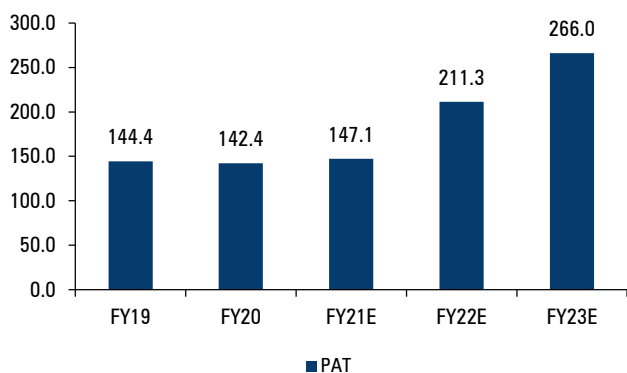
Source: ICICI Direct Research, Company

Exhibit 5: EBITDA expected to grow at 24% CAGR (FY21-23)



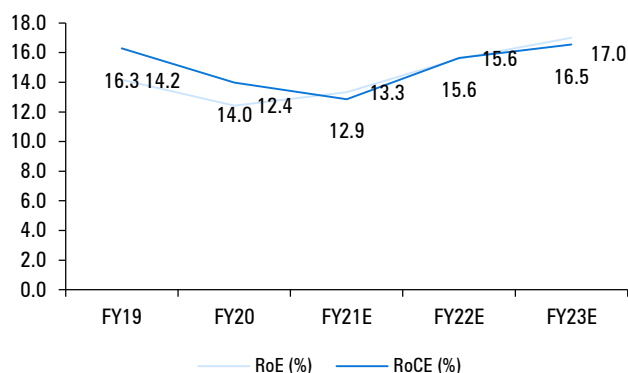
Source: ICICI Direct Research, Company

Exhibit 6: PAT expected to grow at 35% CAGR (FY21-23)



Source: Company, ICICI Direct Research

Exhibit 7: Return ratios



Source: Company, ICICI Direct Research

Exhibit 8: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2753.7	17.2	18.8	17.2	17.9	11.5	16.3	14.2
FY20	2717.8	-1.3	18.6	-1.4	18.2	11.7	14.0	12.4
FY21E	2802.4	3.1	19.2	3.3	17.4	10.2	12.9	13.3
FY22E	3211.2	14.6	27.6	43.6	12.2	8.0	15.6	15.6
FY23E	3802.3	18.4	34.7	25.9	9.7	6.3	16.5	17.0

Source: Company, ICICI Direct Research

## Financial Summary

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	2,717.8	2,802.4	3,211.2	3,802.3
Growth (%)	-1.3	3.1	14.6	18.4
Operating expense	2,214.3	2,297.2	2,601.1	3,079.9
Manpower Cost	157.2	145.5	160.6	182.5
Admin & other expense	105.8	98.4	118.8	140.7
Total Expense	2,477.3	2,541.2	2,880.5	3,403.1
EBITDA	240.5	261.2	330.8	399.2
Growth (%)	-3.6	8.6	26.6	20.7
Depreciation	82.5	92.8	101.0	112.3
EBIT	158.0	168.4	229.7	287.0
Interest	34.3	26.7	17.5	14.8
Other Income	20.1	25.5	22.5	26.6
PBT	143.8	167.2	234.7	298.8
Growth (%)	-6.7	16.2	40.4	27.3
Tax	15.9	23.8	42.2	53.8
Reported PAT	127.9	143.4	192.4	245.0
Growth (%)	5.8	12.1	34.2	27.3
Share of Profit from JV	25.2	20.1	22.1	24.4
Minority Interest	0.8	3.3	3.3	3.3
Extraordinary Item	-9.9	-13.1	0.0	0.0
Adjusted PAT	142.4	147.1	211.3	266.0
EPS	18.6	19.2	27.6	34.7

Source: ICICI Direct Research

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	142.4	147.1	211.3	266.0
Add: Depreciation	82.5	92.8	101.0	112.3
Add: Interest Expense	34.3	26.7	17.5	14.8
Cash Profit	259.2	266.6	329.8	393.2
Increase/(Decrease) in CL	-2.9	-5.5	-64.1	-110.0
(Increase)/Decrease in CA	-13.6	34.8	7.7	19.1
Others	9.6	8.8	0.0	0.0
CF from Operating Activities	252.3	304.7	273.4	302.3
Purchase of Fixed Assets	-133.6	-124.1	-200.3	-150.3
(Inc)/Dec in Investments	-20.1	-24.4	-15.3	-16.8
Others	1.0	27.1	0.5	0.6
CF from Investing Activities	-152.8	-121.4	-215.0	-166.5
Inc/(Dec) in Loan Funds	-45.6	-133.9	-40.0	-30.0
Inc/(Dec) in Share Capital	0.0	0.1	0.0	0.0
Less: Interest Expense	-34.3	-26.7	-17.5	-14.8
Others	-9.2	-9.2	-9.2	-9.2
CF from financing activities	-89.1	-169.7	-66.7	-54.0
Change in cash Eq.	10.4	13.6	-8.3	81.7
Op. Cash and cash Eq.	15.5	25.9	39.5	31.2
Cl. Cash and cash Eq.	25.9	39.5	31.2	112.9

Source: ICICI Direct Research

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>				
Equity Capital	15.4	15.4	15.4	15.4
Reserves & Surplus	1,008.5	1,154.3	1,356.4	1,613.2
Shareholder's Fund	1,023.9	1,169.7	1,371.8	1,628.7
Loan Funds	368.6	234.7	194.7	164.7
Deferred Tax Liability	30.2	27.3	27.9	28.4
Minority Interest	5.7	8.6	8.6	8.6
Govt Grant	1.9	1.9	1.9	1.9
Long Term Provisions	3.1	11.8	11.8	11.8
Source of Funds	1433.4	1454.0	1616.6	1844.0
<b>Application of Funds</b>				
Gross Block	1,061.7	1,147.1	1,347.1	1,497.1
Less: Acc. Depreciation	313.4	406.2	507.2	619.5
Net Block	748.3	740.9	839.8	877.5
Capital WIP	21.6	5.2	5.5	5.8
Non-Current Investments	135.4	150.0	165.0	181.5
Long Term Loans &	4.3	14.1	14.3	14.6
Other Non-Current Assets	66.4	102.1	102.1	102.1
Inventories	6.6	7.1	7.0	8.3
Debtor	487.3	511.0	571.9	677.1
Cash	25.9	39.5	31.2	112.9
Loan & Advance, Other CA	187.7	168.9	172.3	175.7
Current Liabilities	250.0	284.8	292.5	311.6
Trade Payables	63.9	75.9	79.2	93.8
Other Current Liabilities	175.9	200.3	204.3	208.4
Short Term Provisions	10.2	8.6	9.0	9.5
Application of Funds	1,433.4	1,454.0	1,616.6	1,844.0

Source: ICICI Direct Research

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Book Value	133.2	151.7	177.9	211.2
Cash per share	63.6	66.7	74.6	88.4
EPS	18.6	19.2	27.6	34.7
Cash EPS	27.5	30.8	38.3	46.6
DPS	1.8	1.0	1.0	1.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	8.9	9.3	10.3	10.5
PAT Margin (%)	4.7	5.1	6.0	6.4
Fixed Asset Turnover (x)	3.6	3.8	3.8	4.3
Inventory Turnover (Days)	0.9	0.9	0.8	0.8
Debtor (Days)	65.4	66.6	65.0	65.0
Current Liabilities (Days)	8.6	9.9	9.0	9.0
<b>Return Ratios (%)</b>				
RoE	14.0	12.9	15.6	16.5
RoCE	12.4	13.3	15.6	17.0
RoIC	12.0	13.0	15.7	17.8
<b>Valuation Ratios (x)</b>				
P/E	18.3	17.7	12.3	9.8
Price to Book Value	2.6	2.2	1.9	1.6
EV/EBITDA	11.7	10.2	8.0	6.3
EV/Sales	1.0	1.0	0.8	0.7
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.4	0.2	0.1	0.1
Interest Coverage (x)	4.6	6.3	13.1	19.4
Debt to EBITDA (x)	1.5	0.9	0.6	0.4
Current Ratio	2.9	2.2	2.2	1.9

Source: ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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