Sharekhan by BNP PARIBAS

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Stock Update

Transport Corporation of India Ltd

Strong start for FY22

Logistics	Sharekhan code: TCI	Result Update

Summary

- We retain a Buy on TCI Ltd with an unchanged price target of Rs. 541, led by its strong growth outlook and favorable positioning.
- TCI reported broadly in-line revenues for Q1FY2022 while positively surprised on OPM leading to strong beat on net earnings.
- The management retained revenue and net profit growth guidance for FY2022. Management sees early signs of inventory built up with onset of festive season from August 2021.
- Capex of Rs. 150-200 crore for FY2022 while debt equity ratio stands at an all time low. Strong OCF and low leverage can aid in inorganic growth if opportunity arises.

Transport Corporation of India (TCI) reported revenues broadly in-line for Q1FY2022 while it positively surprised on OPM leading to strong beat on net earnings. The consolidated revenues grew by 71.6% y-o-y (-22% q-o-q) to Rs. 696 crore led by strong revenue growth in the freight segment (revenues up 82.5% y-o-y, down 25.7% q-o-q, driven by strong pent-up demand with a fairly good performance in the MSME segment), supply chain management, (up 103% y-o-y, down 26.6% q-o-q, aided by low base in auto sector in Q1FY2021, auto comprises ~80% of revenues) and seaways (up 69.9% y-o-y, -9% q-o-q, nil dry docking and increased freight rates). Consolidated OPM rose 333 bps y-o-y (up 95bps q-o-q) led by strong rise in EBITDA margins in Seaways (36.7% vs 19.8%/36% in Q1FY2021/Q4FY2021) and freight (4% Vs 2.5%/4.4% in Q1FY2021/Q4FY2021) while its SCM business reported dip in EBITDA margins at 10.7% versus 11.3% each in Q1FY2021 and Q4FY2021. Hence, overall operating profit was up by 147% y-o-y (-14.5% q-o-q) to Rs. 75.8 crore, which was higher than our estimates. A lower base and a strong rise in OPM led to adjusted net profit of Rs. 47 crore (much higher than our estimate) versus Rs. 4 crore in Q1FY2021. The company saw a healthy pick up in demand from June 2021 (75% of March 2021) after the weakness felt in May 2021 (affected by covid led lockdown). The management has started to see build up of inventory levels in lieu of the upcoming festive season starting from August 2021. It remains optimistic on demand outlook for FY2022 and has maintained 10-15% y-o-y topline growth and 15-20% y-o-y bottom-line growth. The revenue scale up going ahead should aid in more than offsetting for the increased employee costs and expected increase in other expenses. Hence, it expects OPM to be on upward trajectory going ahead. The company would be incurring Rs. 150-200 crore capex during FY2022. The company continued to pay off high cost loans lowering its debt equity ratio to an all time low. The low leverage and strong cash flow generation is expected to help the company in its capex plans along with grabbing off inorganic growth opportunities which may arise. The company's investments in land, building and investments brings downs its RoCE. However, all its three key verticals are targeting to either reach or cross 20% mark in FY2022. We have revised our net earnings estimates for FY2022E-FY2024E factoring higher OPMs. We retain our Buy rating on the stock with unchanged SOTP based target of Rs. 541 owing to strong growth outlook and its favorable positioning.

Key positives

- Strong outperformance on net earnings led by higher OPM
- Revenue and net profit growth guidance for FY2022 retained
- Debt equity ratio at an all time low

Key negatives

- SCM OPM remained under pressure both y-o-y and q-o-q.

Our Call

Valuation – Retain Buy with an unchanged price target of Rs. 541: TCI is expected to benefit from the logistics sector's growth tailwinds led by GST (business moving towards the organised sector), impact of COVID-19 (increased outsourcing of logistics services to prevent supply chain disruptions in future), government thrust on Atmanirbhar Bharat (PLI incentives to increase domestic manufacturing in turn leading to increased logistics needs), and global supply chain re-alignments (India is expected to be one of the key beneficiaries of China +1 strategy for global manufacturers). We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We have revised our net earnings estimates for FY2022E-FY2024E factoring higher OPMs. We retain our Buy rating on the stock with unchanged SOTP based target of Rs. 541 owing to strong growth outlook and its favorable positioning.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	2,802.4	3,258.4	3,626.1	4,036.5
OPM (%)	9.3	10.0	10.2	10.5
Adjusted PAT	160.2	202.0	221.9	254.1
% YoY growth	5.2	26.1	9.9	14.5
Adjusted EPS (Rs.)	20.9	26.3	28.9	33.1
P/E (x)	21.4	17.0	15.5	13.5
P/B (x)	2.9	2.5	2.2	1.9
EV/EBITDA (x)	13.3	10.6	9.4	8.2
RoNW (%)	14.6	16.1	15.4	15.3
RoCE (%)	10.1	11.4	11.2	11.6

Source: Company; Sharekhan estimates

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 446**	
Price Target: **Rs. 541**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

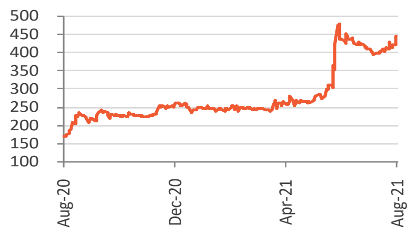
Company details

Market cap:	Rs. 3,441 cr
52-week high/low:	Rs. 510/168
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.6 cr

Shareholding (%)

Promoters	66.7
FII	2.4
DII	12.4
Others	18.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.6	64.9	74.0	158.1
Relative to Sensex	5.8	53.2	66.8	113.7

Sharekhan Research, Bloomberg

Strong outperformance driven by growth across verticals

Transport Corporation of India (TCI) reported strong results for Q4FY2021 driven by growth across all its key three verticals and an improvement in OPM y-o-y. The consolidated revenues grew by 33.7% y-o-y to Rs. 893 crore (up 10.6% y-o-y) led by strong revenue growth in the freight segment (revenues up 32% y-o-y, strong pent-up demand with healthy performance in the MSME segment), supply chain management, (up 42% y-o-y, led by a strong growth in auto sector, which comprises ~80% of revenues) and seaways (up 24.4% y-o-y, nil dry docking and increased freight rates). Consolidated OPM rose 116 bps y-o-y led by strong rise in EBITDA margins in SCM (11.3% versus 9.3% in Q4FY2020) and Seaways (36% versus 31.5% in Q4FY2020) while its freight business reported marginal improvement in EBITDA margins at 4.5% versus 4.2% in Q4FY2020). Hence, overall operating profit was up by 51.3% y-o-y to Rs. 88.6 crore, which was higher than our estimates. A strong operational performance led to an 86.5% y-o-y rise in adjusted net profit to Rs 67.2 crore (adjusting for a Rs. 2.6 crore impairment allowance that provided for a wind power plant) which was much higher than estimate.

Strong growth outlook with aggressive capex plan

The company continued to see normal demand in April 2021, which although lower than the peak levels seen in March historically. However, the second wave of COVID-19 has affected May 2021 revenues. The logistics industry generally sees demand picking up from August of every year which the management expects the same during FY2022 with a caveat that the second wave of COVID-19 normalises before that. Hence, TCI Ltd remains optimistic for FY2022 and targets to achieve topline and bottomline growth of 15% and 20% for FY2022. The company generated over Rs. 300 crore operating cash flows during FY2021 which led to lowering of debt to equity to just 0.2x in FY2021 from 0.4x in FY2020. It has earmarked aggressive capex plan of Rs. 225 crore for FY2022 spread across its key three key verticals. The same is expected to be funded equally through debt and internal accruals. We expect the capacity additions to provide healthy growth to the company while strong operating cash flow generations over the next two years to aid in maintaining healthy balance sheet (D/E of 0.2x by FY2023).

Key Conference Call takeaways -

- **Q1FY2022:** The company saw healthy sales during the initial April period while May was affected by lockdown restrictions. However, June witnessed a pick up in demand and was 75% of March 2021 level.
- **4PL:** The company is seeing clients asking for 4PL services especially in Auto segment.
- **Guidance:** The company maintained 10-15% revenue growth and 15-20% bottomline growth for FY2022. With the upcoming festival season, inventory build up has started.
- **Capex:** The company maintained Rs. 150-200 crore capex for FY2022.
- **Higher Margins:** Lower travelling, conveyance, admin costs, finance costs aided in better margins. Going ahead increase in scale of revenues would help in absorbing in increased employee costs and other expenses.
- **Freight:** The division grew 82% y-o-y with slightly better margins q-o-q. LTL started to show pick up in June. 40% of LTL target remains as it goes ahead. Expect to cross 20% RoCE in this year.
- **SCM:** Auto comprise 75-80%. 12msf warehousing base and own 1000 odd vehicles. The business grew 100% y-o-y as Q1FY2021 was heavily affected by weak auto sales. There are some pressures with respect to increased fuel prices. The current 18% RoCE to touch 20% level in FY2022.
- **Seaways:** The business has been steady. The business grew by 70% y-o-y. It has good amount of return cargo from Myanmar. The OPM were better due to all operational ships. From Q2FY2022, it has a dry dock for one ship. Around 95% of the shipping cargo is domestic so higher international rates does not impact much. The RoCE is expected at 20% in FY2022.
- **JVs:** The cold chain business doubled over last year. The Concor JV business remained flat versus last year. Transystem JV with Toyota has started to pick up.
- **Q1FY2022:** The company did 32,000TEUs in Q1FY2022 versus 2 lakh tonnes in FY2021. It moved 200 trains in Q1FY2022 versus 1300 in FY2021.
- **Working capital:** The company has worked hard on receivables which has paid off. It has paid off high cost loans in Q1FY2022. The current net debt stands at Rs. 151 crore. The debt equity is at an all time low.

Results (Consolidated) Rs cr

Particulars	Q1FY22	Q1FY21	y-o-y (%)	Q4FY21	q-o-q (%)
Net sales	**696.1**	**405.7**	**71.6%**	**892.7**	**-22.0%**
Other income	4.1	3.0	34.2%	11.3	-63.8%
Total income	700.2	408.8	71.3%	904.0	-22.5%
Total expenses	620.4	375.1	65.4%	804.1	-22.8%
Operating profit	**75.8**	**30.6**	**147.3%**	**88.6**	**-14.5%**
Depreciation	24.7	20.6	20.0%	28.0	-11.8%
Interest	4.7	7.4	-36.1%	6.1	-22.7%
Exceptional items	0.0	0.0		-2.6	
Profit Before Tax	**50.4**	**5.7**	**-**	**63.2**	**-20.2%**
Taxes	6.4	0.9	-	8.1	-20.9%
PAT	44.0	4.8	-	55.1	-20.1%
Minority Interest/JV income	-2.9	0.8	-	-9.5	-70.0%
Adjusted PAT	**46.9**	**4.1**	**-**	**67.2**	**-30.3%**
EPS (Rs.)	6.1	0.5	-	8.8	-30.3%
Margins					
OPM (%)	10.9%	7.5%	333 bps	9.9%	95 bps
NPM (%)	6.7%	1.0%	573 bps	7.5%	-80 bps
Tax rate (%)	12.7%	14.9%	-228 bps	12.8%	-12 bps

Source: Company; Sharekhan Research

Outlook and Valuation

Sector view - Strong growth outlook led by changing consumer preferences & macro pick-up

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

Company outlook - Strong headroom for long-term growth

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 along with 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, 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 - Retain Buy with an unchanged price target of Rs. 541

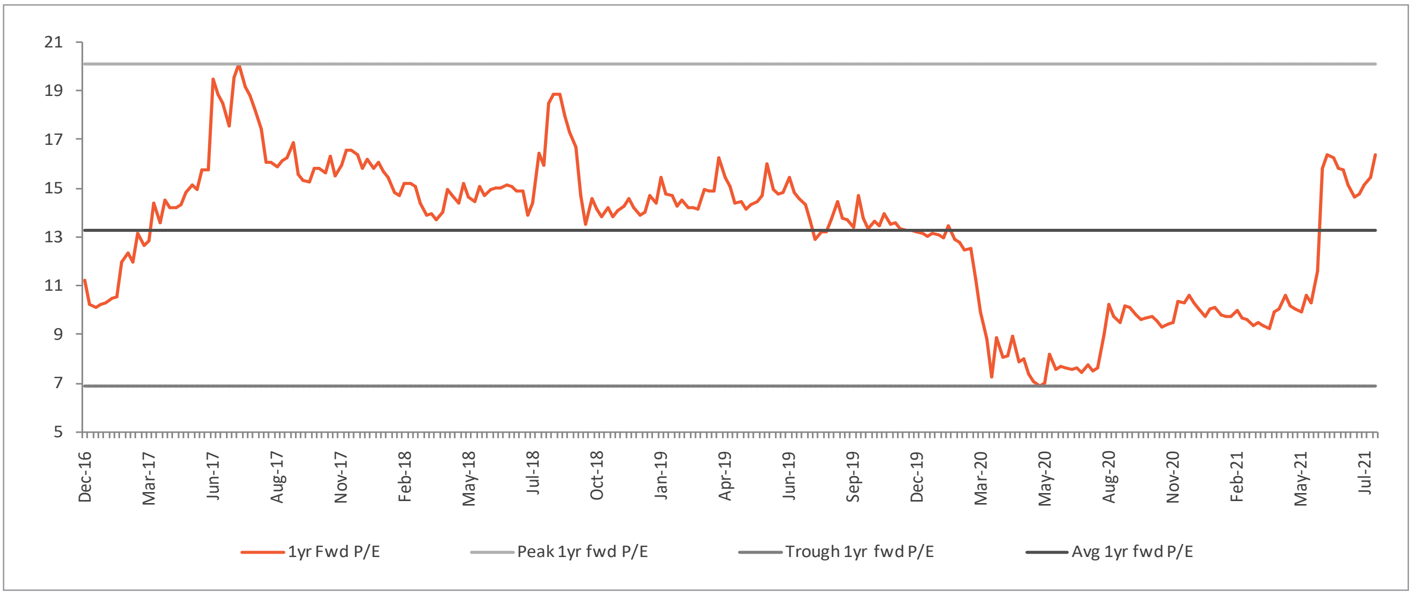
TCI is expected to benefit from the logistics sector's growth tailwinds led by GST (business moving towards the organised sector), impact of COVID-19 (increased outsourcing of logistics services to prevent supply chain disruptions in future), government thrust on Atmanirbhar Bharat (PLI incentives to increase domestic manufacturing in turn leading to increased logistics needs), and global supply chain re-alignments (India is expected to be one of the key beneficiaries of China +1 strategy for global manufacturers). We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We have revised our net earnings estimates for FY2022E-FY2024E factoring in higher OPMs. We retain our Buy rating on the stock with unchanged SOTP based target of Rs. 541 owing to strong growth outlook and its favorable positioning.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	7x EV/EBITDA on FY2024E	636	83
SCM	13x EV/EBITDA on FY2024E	2178	283
Seaways	7.5x EV/EBITDA on FY2024E	1269	165
Less: Net Debt		41	5
Value of core verticals		4041	526
Transystem JV	1x P/B	117	15
Price target			**541**

Source: Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TCI	15.5	13.5	9.4	8.2	2.2	1.9	15.4	15.3
TCI Express	32.4	26.7	23.1	19.0	7.9	6.2	27.6	26.4
Mahindra Logistics	54.3	40.8	18.3	14.3	6.4	5.5	13.8	15.8
Gateway Distriparks	17.7	12.5	9.3	7.2	2.2	1.9	12.5	15.9

Source: Company, Sharekhan estimates

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 with presence across major districts. TCI has 12 mn. sq. ft. of warehousing space. The company has three broad business verticals. TCI Freight: It 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 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 along with 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 growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, 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 macro-economy leading to weak logistics industry outlook.
- High concentration towards the automotive industry.
- Highly competitive industry.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman & Managing Director
Mr. Vineet Agarwal	Managing Director
Mr. Ashish Tiwari	Group Chief Financial Officer
Ms. Archana Pandey	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC AMC	6.36
2	HDFC Trustee	3.11
3	C. Robeco AMC	2.81
4	IDFC AMC	2.64
5	Sundaram AMC	1.07
6	Dimensional Fund	0.91
7	TATA AMC	0.83
8	GIC AMC	0.60
9	JP Morgan	0.51
10	LIC Nomura MF	0.46

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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;