Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Transport Corporation of India Ltd

Improving demand to help hit growth target

Logistics	Sharekhan code: TCIEXP
Reco/View: Buy ↔	CMP: **Rs. 721** / Price Target: **Rs. 860** ↑

↑ 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		↔	

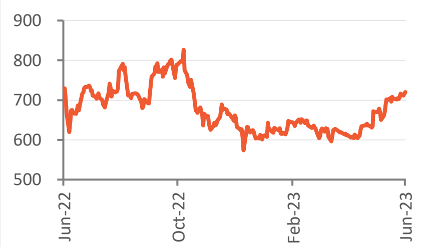
Company details

Market cap:	Rs. 5,589 cr
52-week high/low:	Rs. 845 / 556
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	69.0
FII	2.8
DII	12.2
Others	16.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.5	19.3	8.9	-1.3
Relative to Sensex	6.1	10.1	8.0	-21.3

Sharekhan Research, Bloomberg

Summary

- We retain a Buy rating on TCI Limited with a revised PT of Rs. 860, factoring upwardly revised valuation for its JV and its steady earnings growth trajectory aided by multi-modal capabilities.
- TCI has seen m-o-m improvement in demand during June 2023. Macro indicators highlight a better domestic trade environment in May 2023 with y-o-y and m-o-m growth in May 2023.
- The management retained a 10-15% y-o-y revenue and net profit growth for FY2024, led by 20% y-o-y revenue growth in SCM, 10-15% y-o-y in freight and flat Seaways business.
- The Transystem JV is expected to post higher double-digit y-o-y revenue growth for FY2024, after a strong 48% y-o-y revenue growth posted in FY2023.

We interacted with the management of Transport Corporation of India (TCI) to ascertain improving demand visibility in the logistics space in June 2023 till date. The management sticks to its 10-15% y-o-y growth guidance for consolidated revenue and net profit for FY2024. Till date in June 2023, it is seeing a m-o-m improvement in demand environment compared to seasonally weak May month. It eyes 10-15% y-o-y revenue growth in the freight business for FY2024 with a target of increasing its LTL mix (2x OPMs than FTL) to 40% by FY2025 from ~33% in FY2023. The SCM business stays on high growth trajectory with anticipated 20% y-o-y revenue growth for FY2024 while sub-10% OPM in FY2023 should improve to over 10%, led by higher warehousing revenue mix and economies of scale. In Seaways, it continues to maintain a flattish revenue y-o-y while it still remains in process of acquiring new ship. Its Transystem JV (49% stake) is expected to grow its revenues in higher double digit y-o-y during FY2024, post a strong 48% y-o-y revenue growth in FY2023.

- **Logistics demand environment improving:** The macro-economic indicators such as daily average e-way bill generation, domestic rail container volumes, cargo handled at major ports and containers handled at major ports reported y-o-y and m-o-m growth during May 2023. As per the management, it has seen m-o-m improvement in demand environment in June 2023 till date which is expected to sustain. Consequently, it remained confident of achieving the mid-range of a 10-15% y-o-y revenue growth in freight business and a 20% y-o-y revenue growth in SCM.
- **Transystem JV outlook stays strong:** TCI's 49% Transystem JV recorded a stupendous 48% y-o-y revenue growth in FY2023 (30% y-o-y growth in FY2022) with 11.9% PAT margins (11.6% in FY2022). Toyota's bagging the deal to manage manufacturing of Suzuki vehicles led to this strong growth. The JV has a ~20% OPM and net cash surplus in books and is expected to grow at higher double digit in revenues during FY2024.
- **Consolidated earnings guidance retained:** Despite the uptick in logistics demand, the management retained its conservative freight revenue growth guidance of 10-15% y-o-y as it would focus equally on quality of growth with volume growth. Its SCM business is seeing traction from few white goods companies which are maturing to have supply chain contracts as Auto sector. SCM is expected to grow at a strong 20% y-o-y in revenues with focus on improving OPMs from sub 10% in FY2023 to over 10%. Seaways is expected to remain flattish y-o-y in terms of revenues while it would strive to maintain high OPMs. Overall, it retained its earlier guidance of 10-15% y-o-y in revenues and net profit for FY2024.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 860: TCI is expected to drive overall revenue growth with strong growth envisaged in SCM business, healthy growth run-rate in the freight business, while Seaways remains flat on lower volumes. The addition of one more ship in Seaways is keenly awaited, which would provide a fillip to its growth outlook. TCI's multi-modal capabilities and exposure to almost all major end user industries are expected to drive growth. We expect consolidated revenues/operating profit/net profit CAGR of 13%/14%/13%, respectively, over FY2023-FY2025E. The stock is currently trading at a P/E of 14x on FY2025E earnings which is at a high discount to its peers. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 860 as we factor in higher valuation of its Transystem JV changing valuation methodology to P/E based from P/B earlier.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	3,258.8	3,782.6	4,258.8	4,793.2
OPM (%)	12.6	11.2	11.4	11.5
Adjusted PAT	289.6	321.4	363.8	406.8
% YoY growth	80.8	11.0	13.2	11.8
Adjusted EPS (Rs.)	37.5	41.6	47.1	52.6
P/E (x)	19.2	17.3	15.3	13.7
P/B (x)	3.9	3.2	2.7	2.3
EV/EBITDA (x)	13.7	13.2	11.5	10.1
RoNW (%)	22.3	20.5	19.4	18.2
RoCE (%)	17.7	16.3	15.5	15.0

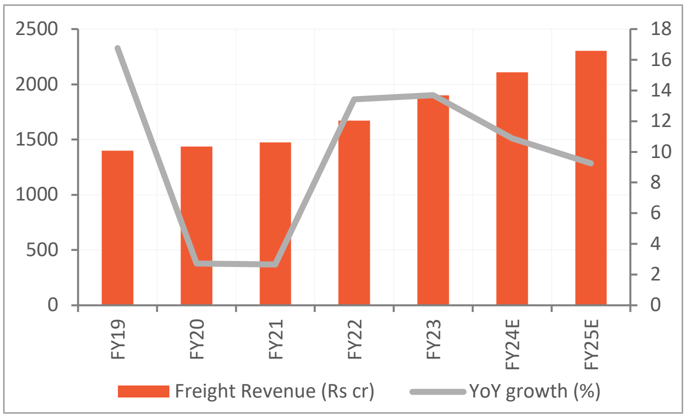
Source: Company; Sharekhan estimates

Management interaction key takeaways

- **Guidance:** For FY2024, the management retained its consolidated revenues and net profit growth guidance of 10-15% y-o-y. Freight revenues are expected to grow in the mid-range of 10-15% y-o-y, SCM business at 20% y-o-y while Seaways' revenues are expected to remain flattish y-o-y.
- **Outlook:** June 2023 till date has been better than May, which seasonally gets impacted by factors such as summer.
- **Freight:** TCIL saw a strong 16% y-o-y revenue growth in freight business in FY2023 led by additions of new customers, smaller contracts getting converted to larger ones and increase in wallet share from existing customers with adoption of technology. It was able to undertake 4-5% pricing growth in FY2023. The LTL mix in freight business was ~33% in FY2023 which it targets to scale up to 40% by FY2025. LTL commands double the operating margins compared to FTL.
- **SCM:** The company's supply chain management biz margins are better than its peers. While in FY2023, SCM operating margins were sub 10%, it is expected to improve going ahead and cross the 10% mark. Higher share of warehousing business and economies of scale would aid in improvement in operating margins. The automotive sector is the largest customer for SCM industry followed by white goods, which is maturing to have supply chain contracts and seeing traction. The company has 14 msf of warehousing space of which only 14-15% is owned by the company/group companies.
- **Seaways:** It continues to operate on the coastal route while being opportunistic on EXIM business. It is in discussions with ship manufacturers apart from visits to China and Japan to acquire ship. However, nothing has been finalised yet.t
- **Transystem JV:** The JV's (where TCIL holds a 49% stake) revenues grew by 48% y-o-y in FY2023 led by contribution from handling Suzuki volumes (Toyota bagged the project to manage the manufacturing of Suzuki vehicles). Additionally, the JV handles volumes from Japanese players like Honda, Nissan, other auto part components, etc. The JV is expected to grow at higher double digit during FY2024.

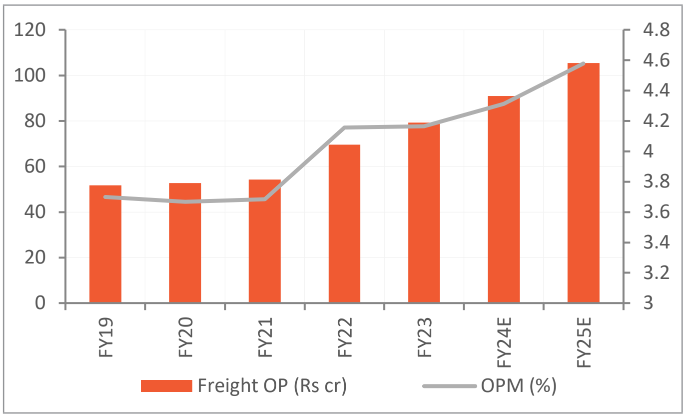
Financials in charts

Freight revenue trend



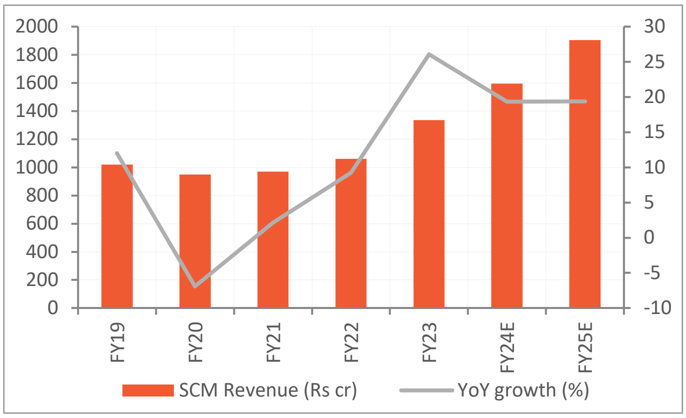
Source: Company, Sharekhan Research

Freight Operating profit/OPM trend



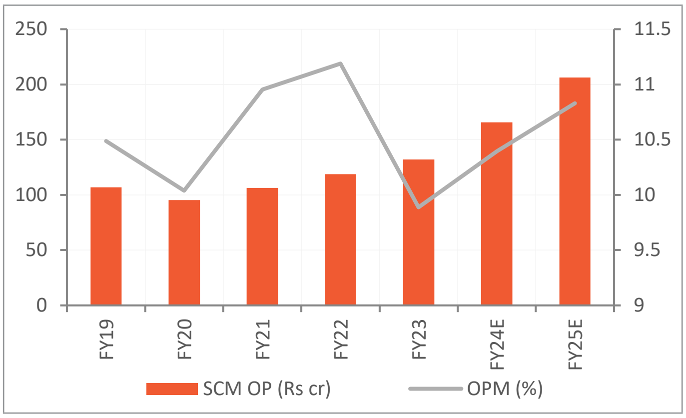
Source: Company, Sharekhan Research

SCM revenue trend



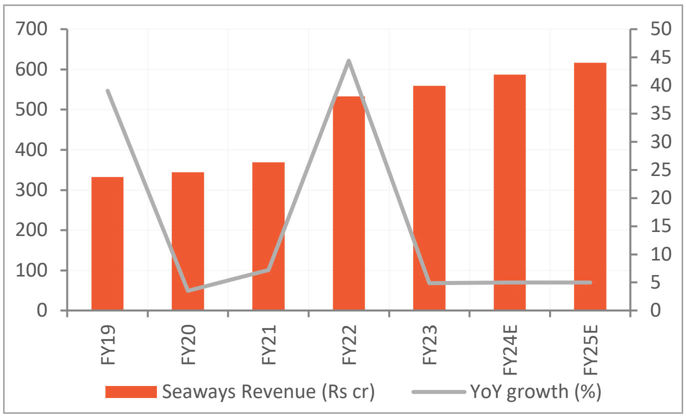
Source: Company, Sharekhan Research

SCM Operating profit/OPM trend



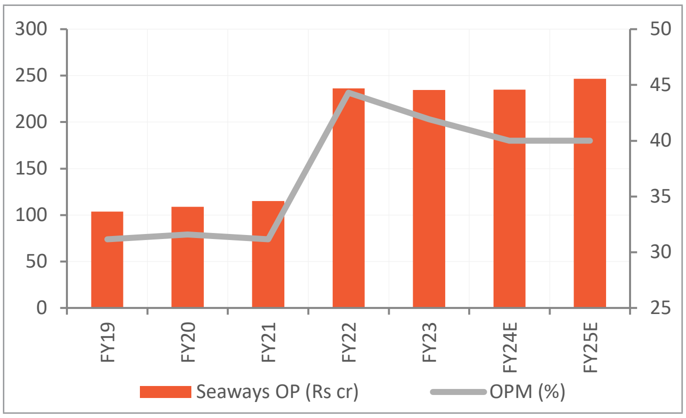
Source: Company, Sharekhan Research

Seaways revenue trend



Source: Company, Sharekhan Research

Seaways Operating profit/OPM trend



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, which showed a strong revival post-COVID-19 pandemic that affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail freight volume, domestic ports 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 wake of the impact of COVID 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 – 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 the multi-modal logistics and the 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 – Retain Buy with a revised price target of Rs. 860

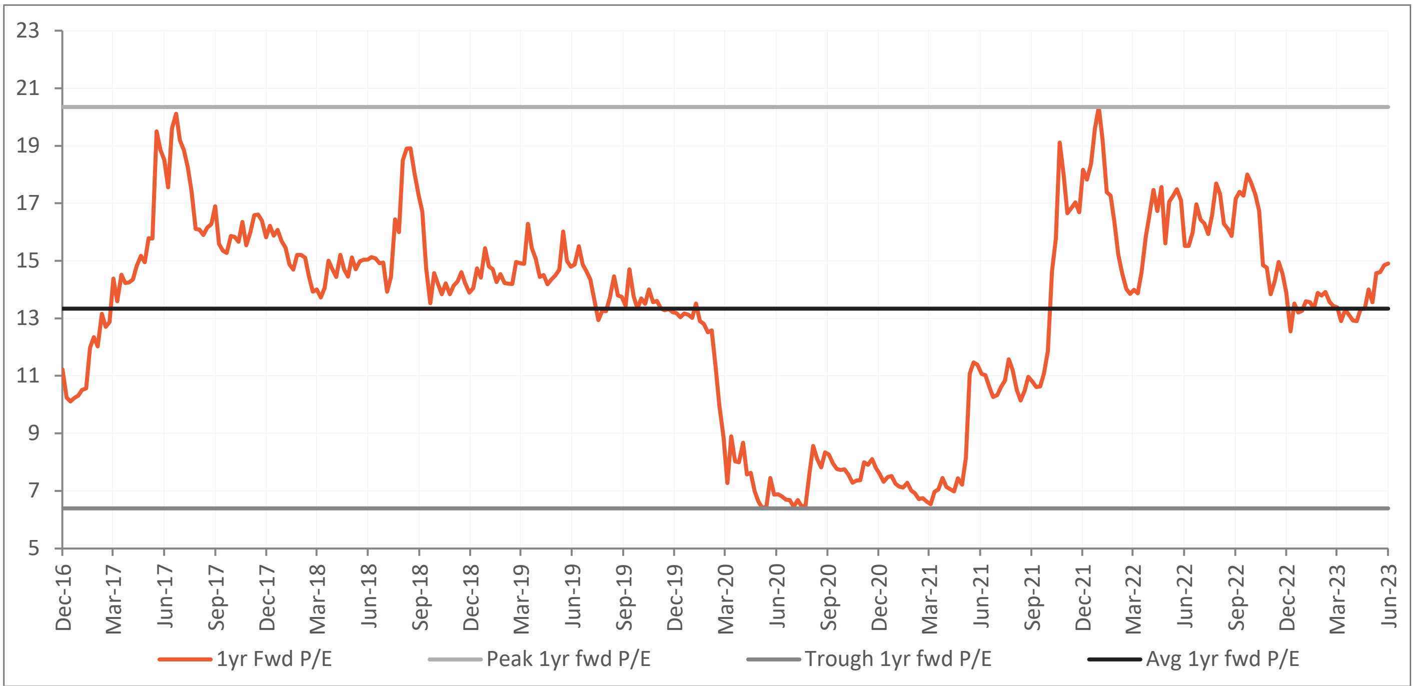
TCI is expected to drive overall revenue growth with strong growth envisaged in SCM business, healthy growth run-rate in the freight business, while Seaways remains flat on lower volumes. The addition of one more ship in Seaways is keenly awaited, which would provide a fillip to its growth outlook. TCI's multi-modal capabilities and exposure to almost all major end user industries are expected to drive growth. We expect consolidated revenues/operating profit/net profit CAGR of 13%/14%/13%, respectively, over FY2023-FY2025E. The stock is currently trading at a P/E of 14x on FY2025E earnings which is at a high discount to its peers. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities. We retain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 860 as we factor in higher valuation of its Transystem JV changing valuation methodology to P/E based from P/B earlier.

Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	9x EV/EBITDA on FY2025E	949	123
SCM	10x EV/EBITDA on FY2025E	2062	267
Seaways	9x EV/EBITDA on FY2025E	2245	290
Less: Net Debt		-684	-89
Value of core verticals		5941	769
Transystem JV	15x P/E on FY25E, 20% holding company discount	703	91
Price target			**860**

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
TCI	15.3	13.7	11.5	10.1	2.7	2.3	19.4	18.2
TCI Express	36.7	29.6	25.9	20.8	8.6	6.9	26.1	26.2
Mahindra Logistics	77.1	31.5	7.0	5.5	3.9	3.5	5.9	13.1

Source: 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 with a 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 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.

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

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bhoruka Supply Chain Solutions Holdings	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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