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# Logistics

## Structural drivers yet to take root

July 2021

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**LOGISTICS**

15 July 2021

**Structural drivers yet to take root**

- Structural growth drivers such as shift to organised players, outsourcing/3PL and manufacturing scale-up are yet to materialise
- Cyclical recovery has begun post second Covid wave with new manufacturing orders, recovering auto sales and strong trade data
- Retain MAHLOG and VRLL at BUY on high recovery-led growth prospects. TCIEXP and TRPC cut to HOLD after +30% rally; retain CCRI at SELL

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**Sector has underperformed:** At 5.8% over FY16-FY21, the revenue CAGR of India's top 10 logistics players is below the 6.7% growth clocked by the country's top 1000 listed companies. In our view, listed logistics players are dependent on client segments such as auto, FMCG and engineering which form a small portion of overall logistics spend and have been slow to grow in recent years. In addition, structural drivers are yet to kick in. As a result, the sector has lagged the Nifty in 11 of the last 16 quarters.

**Structural drivers yet to take root...:** The anticipated shift to the organised sector post GST and Covid-19 has been slow but should accelerate as customer industries become formalised and GST compliance remains a challenge for unorganised players. Outsourcing of logistics (3PL) is stuck at 3% of the market versus the global average of 10% as the formulation of a follow-up roadmap post GST is progressing at a sluggish pace after decades of having a state rather than nationwide plan. Scale in manufacturing/warehousing leading to more distance per tonne will also take time.

**...but cyclical recovery underway:** Various macro indicators reflect the onset of a post Covid recovery. New order data suggests that manufacturing PMI, albeit still in contraction mode, is likely to improve. Auto, a key logistics customer segment, also saw sales soar in June. Merchandise trade has held up well and rail movement of industrial commodities and container traffic has remained stable. After slipping in May, road traffic is improving with e-way bill and Fastag toll collections up MoM in June.

**Recovery priced in; stock selection key:** Multiples are close to peaks and on reverse DCF, 3 of our 5 coverage stocks are implying a 10-year FCF CAGR of +20% above the historical mean. Being selective is thus critical. We prefer Mahindra Logistics (MAHLOG, BUY, TP Rs 701) and VRL Logistics (VRLL, BUY, TP Rs 381) as they are most sensitive to market revival and should clock respective FY21-FY23 EPS CAGR of 106% and 72%. MAHLOG is also the most capital efficient and VRLL is the cheapest stock in the sector.

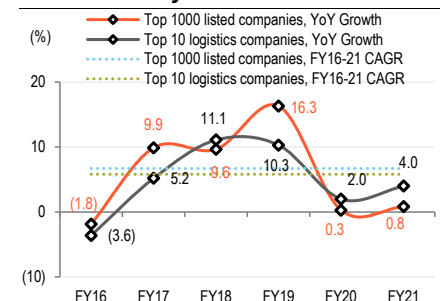
We like TCI Express' (TCIEXP) efficient business model but downgrade it from BUY to HOLD (TP Rs 1,421) as valuations have peaked after a +35% rally post the FY21 results. We similarly downgrade Transport Corp (TRPC, TP Rs 431) after its +30% rally. Retain SELL on Container Corp (CCRI, Rs 521) which remains overvalued.

**Recommendation snapshot**

Ticker	Price	Target	Rating
CCRI IN	676	521	SELL
MAHLOG IN	583	701	BUY
TRPC IN	400	431	HOLD
TCIEXP IN	1,475	1,421	HOLD
VRLL IN	316	381	BUY

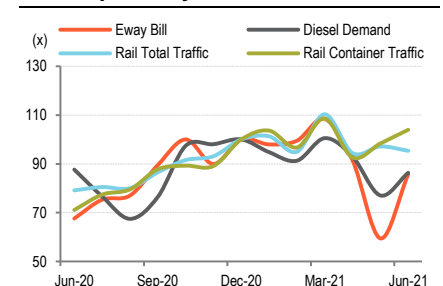
Price & Target in Rupees | Price as of 14 Jul 2021

**Growth still cyclical not structural**



Source: BOBCAPS Research, Bloomberg

**Indicators (Dec'20 = 100) recovering after dip in May**



Source: BOBCAPS Research, Bloomberg



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## Buy MAHLOG for growth and VRLI for valuations

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Logistics holds great potential but growth has lagged. Sector has underperformed the market

Logistics is a growing sector of the Indian economy with multiple drivers. However, its revenue CAGR of 5.8% over FY16-FY21 has lagged the 6.7% growth rate of the broader market (as measured by aggregate revenue of the top 1000 listed companies in India). The sector has underperformed the Nifty in 11 of the last 16 quarters. We, therefore, remain selective and prefer stocks that offer a combination of strong earnings growth and reasonable valuations. Our top picks are MAHLOG (high earnings growth, low capital intensity) and VRLI (attractively priced, healthy growth).

### Mahindra Logistics – Demand recovery to catalyse strong earnings growth

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MAHLOG to see strong EPS growth on recovery. Also, the most efficient user of capital

MAHLOG is a leading logistics company exposed to the auto sector with over 50% of revenues coming from main shareholder and auto major M&M. The company also offers transportation and warehousing solutions to other sectors and, with new customer additions, aims to triple revenues in five years. The stock is trading at its peak valuation but we expect strong growth driven by recovery in auto and other sectors, aided by the company's asset-light model and high operating leverage, to result in a +100% EPS CAGR over FY21-FY23.

We retain BUY and raise our Jun'22 DCF-based TP from Rs 635 to Rs 701, implying an FY23E P/E of 35x – a 4% premium to the three-year mean. We believe the company's robust growth outlook and low capital intensity merits a valuation premium.

### VRLI – Earnings recovery not priced in

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VRLI the cheapest stock on all metrics. Stock price implies FCF growth of less than 10%

VRLI is likely to be a beneficiary of the rebound in less-than-truckload (LTL) business following the removal of Covid-19 restrictions. The company's asset-heavy model faces inherent challenges but in a recovery cycle, its high-cost structure delivers better operating leverage than peers. We retain BUY and raise our Jun'22 DCF-based TP to Rs 381 (vs. Rs 285), implying an FY23E P/E of 25.3x – a 23% premium to mean justified by the sharp anticipated recovery in earnings (72% FY21-FY23E CAGR).

### TCI Express – Best growth record but valuations high

TCIEXP is one of the largest LTL companies in a heavily fragmented market and has posted among the strongest net income growth rates (20% CAGR for FY16-FY21) in the sector. We expect the company to clock a robust 18% volume CAGR over FY21-FY23 as economic growth gathers pace and organised logistics players gain share. However, in our view, the +35% rally in stock price post the FY21 results already prices in the expected strong earnings growth. We downgrade our rating from BUY to HOLD given limited upside. Our new Jun'22 DCF-based TP of Rs 1,421 (vs. Rs 1,140) implies 35x FY23E P/E, 24% premium to mean.

### TRPC – Post result rally leaves limited room for upside

TRPC offers exposure to diverse logistics services and end-use industries which are already on the road to recovery, supporting earnings visibility. That said, the 31% rally following the FY21 results factors in the growth prospects. We expect the discount to peer valuations to continue due to higher capital intensity and downgrade TRPC from BUY to HOLD with a revised Jun'22 DCF-based TP of Rs 431 (vs. Rs 320).

### CCRI – Overpriced due to disinvestment optimism

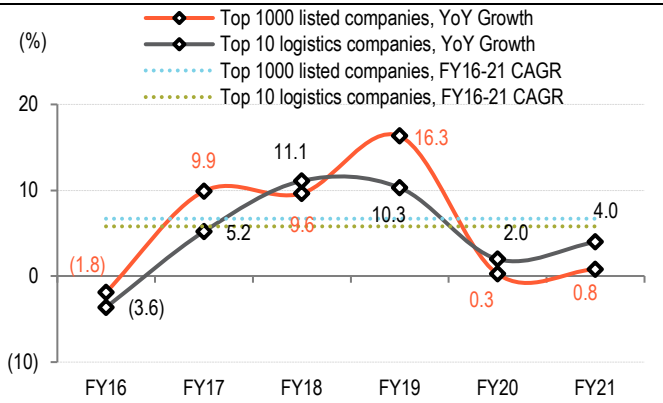
CCRI is well positioned to benefit from containerisation and multimodal transport which will be further catalysed by completion of the dedicated freight corridor (DFC). Its stock price has, however, climbed to a 10-year peak across valuation metrics primarily fueled by disinvestment prospects. We retain SELL with a new Jun'22 DCF-based of Rs 521 (vs. Rs 505). Disinvestment at a premium to current price remains a key risk.

**Fig 1 – Company outlook (Darker shade implies more positive indicator)**

Factor	TCIEXP	TRPC	MAHLOG	VRL	CCRI
<b>FY21-23E Growth CAGR (%)</b>					
EPS	25.4	13.9	109.2	71.7	41.0
EBITDA	27.3	13.1	49.8	23.3	33.2
<b>Valuation Multiples</b>					
FY23E P/E	35.8	14.8	29.1	21.0	31.7
FY23E EV/EBITDA	24.8	9.4	13.1	7.3	18.8
FCF Yield (%) (FY23E FCF/EV)	2.5	1.2	4.0	6.4	1.4
FY23E Dividend Yield (%)	0.6	1.0	0.7	1.3	0.7
<b>Balance Sheet &amp; Capital Intensity</b>					
Net Debt/EBITDA (FY23E)	(1.2)	0.2	(0.8)	(0.1)	(2.0)
Net Working Capital (FY21, % of Sales)	20.1	14.0	12.2	(2.2)	2.9
Capex by Sales (% , FY17-21 Average)	4.3	5.5	1.4	5.0	13.5
<b>Returns (%)</b>					
ROIC FY23E	34.8	11.3	27.2	19.0	12.0
ROE FY23E	25.1	14.6	20.2	17.5	11.6
<b>Catalysts</b>					
Positive	LTL recovery	LTL recovery	Auto sales recovery New customers in 3PL business	LTL recovery	Divestment  DFC completion
Negative		Delay in replacing ship could impact volumes	Continued losses in people transport business  Delayed recovery in supply chain mgmt. business	Continued losses in bus transport business	Delay in finalising lease of rail land

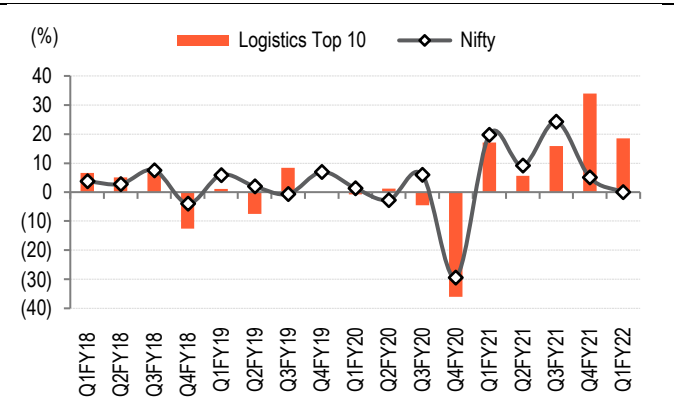
Source: BOBCAPS Research

**Fig 2 – Sector revenue growth has been lower on an aggregate revenue growth of Top 1000 stocks**



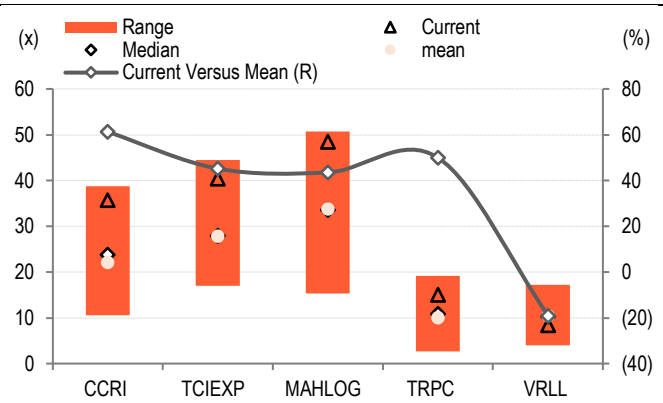
Source: Bloomberg

**Fig 3 – Sector has underperformed Nifty in 11 of last 16 quarters**



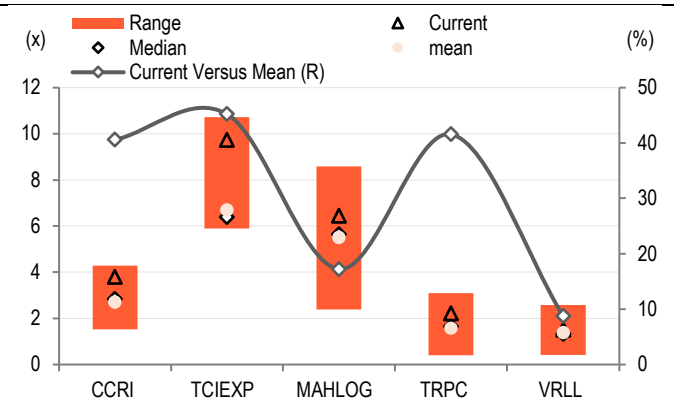
Source: Bloomberg

**Fig 4 – Forward P/E multiples close to the peak**



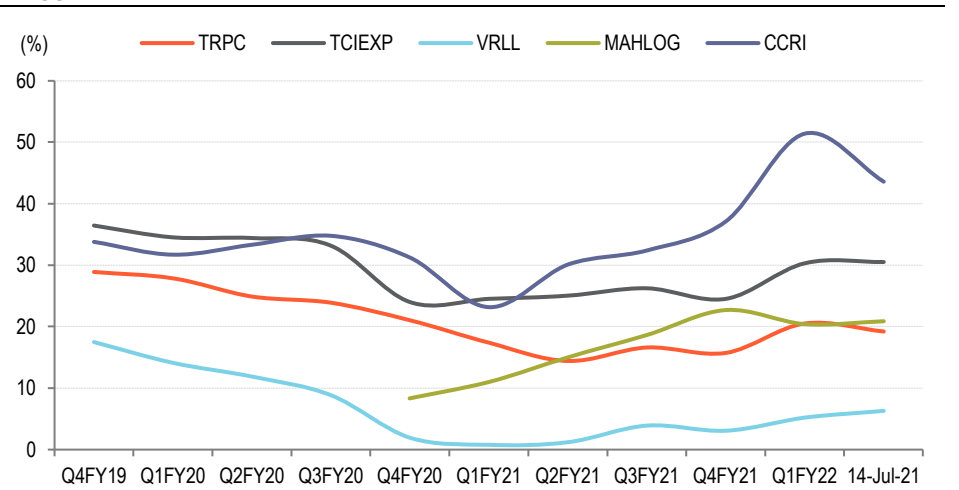
Source: Bloomberg

**Fig 5 – Forward P/B also close to the peak**



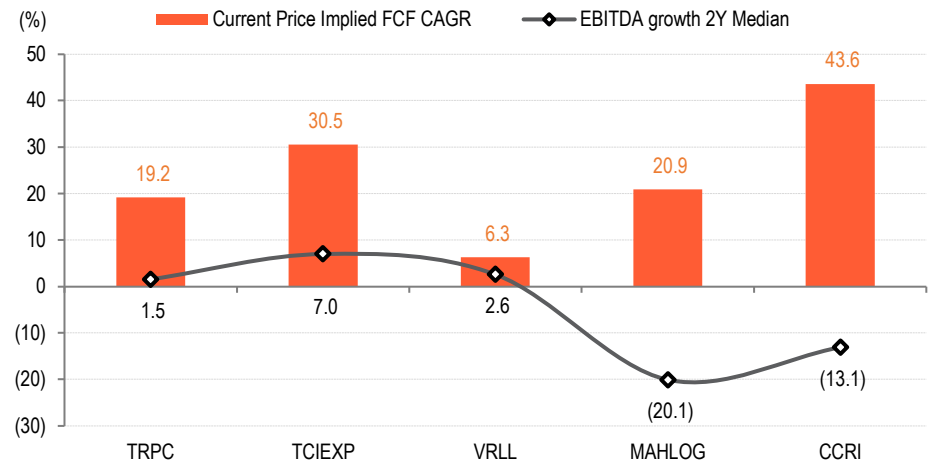
Source: Bloomberg

**Fig 6 – 10Y FCF growth expectations implied by current/historical stock price suggest market optimism has increased**



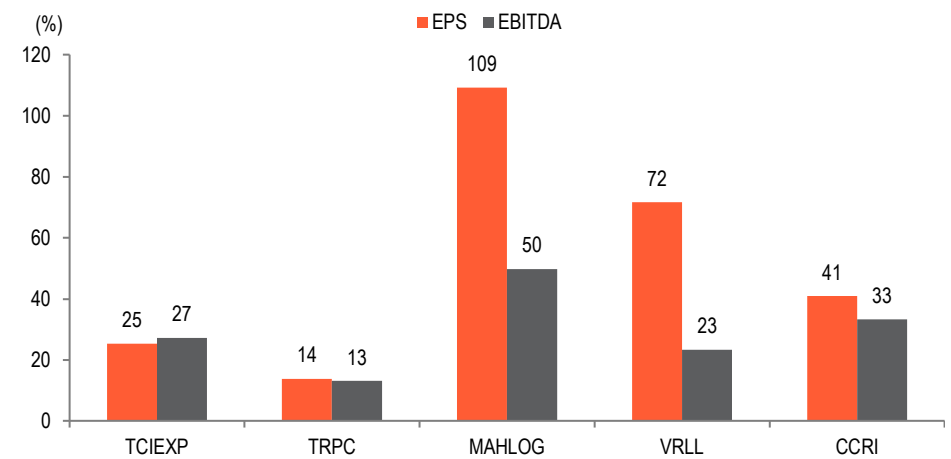
Source: BOBCAPS Research

**Fig 7 – Price-implied FCF vs. recent EBITDA growth shows market is expecting strong recovery after weakness in last two years**



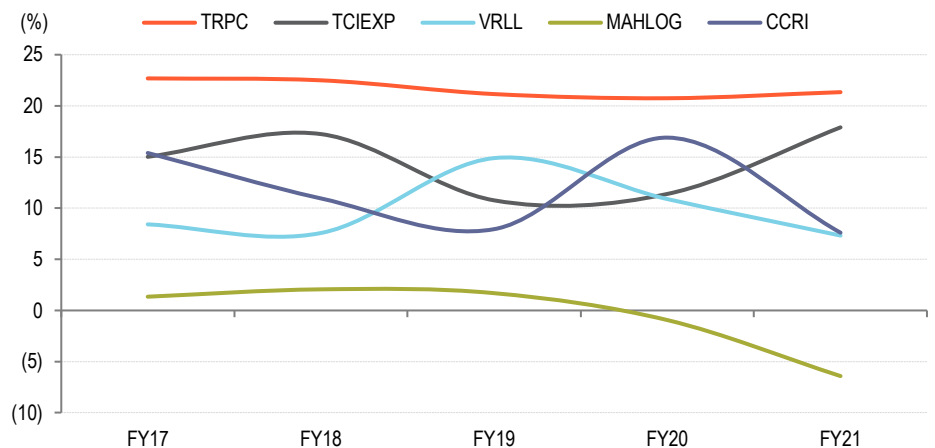
Source: BOBCAPS Research, Company

**Fig 8 – We expect FY21-FY23E EPS and EBITDA CAGR to be strongest for MAHLOG and VRLL**



Source: Company, BOBCAPS Research

**Fig 9 – Capex + Net working capital to sales ratio indicates that MAHLOG is most capital efficient**

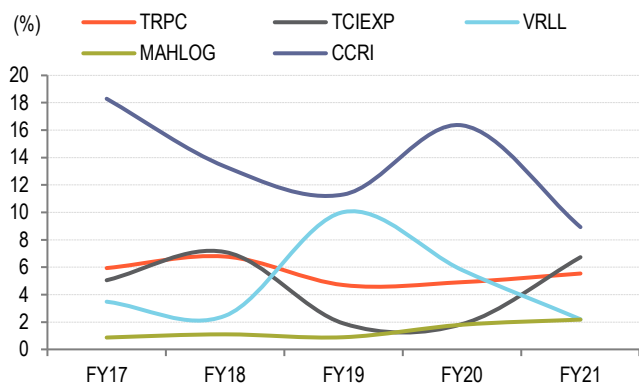


Source: Company, BOBCAPS Research

MAHLOG's model is least capital intensive with both capex and working capital among the lowest in the sector

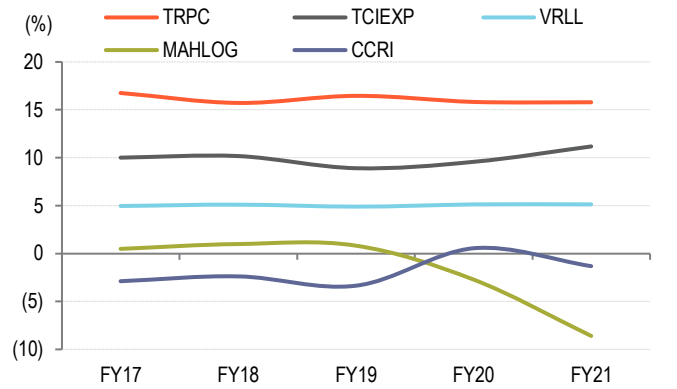
TRPC's heavy working capital makes it the highest user of capital in our coverage

**Fig 10 – Capex by Sales – MAHLOG and TCIEXP least capex-intensive**



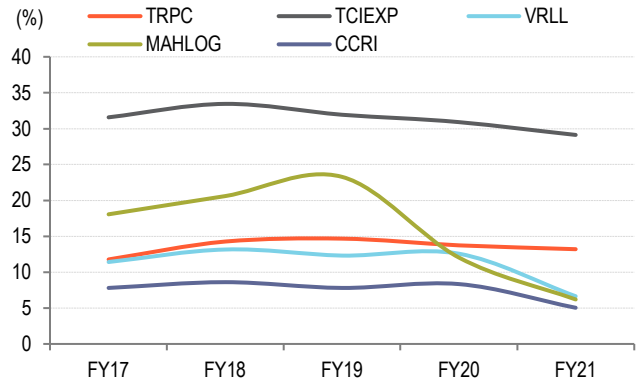
Source: Company, BOBCAPS Research

**Fig 11 – Net working capital by Sales – CCRI and MAHLOG have lowest working capital**



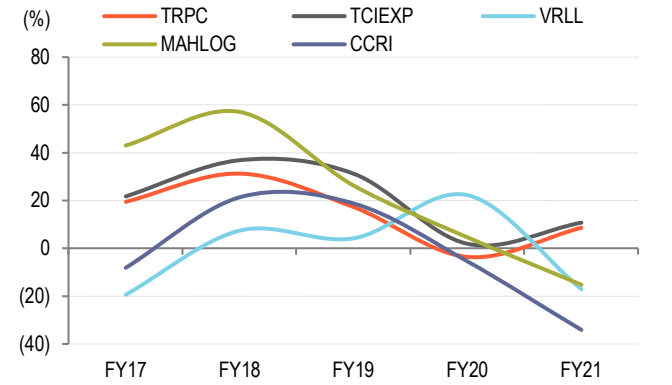
Source: Company, BOBCAPS Research

**Fig 12 – ROICs down but TCIEXP and TRPC have done better**



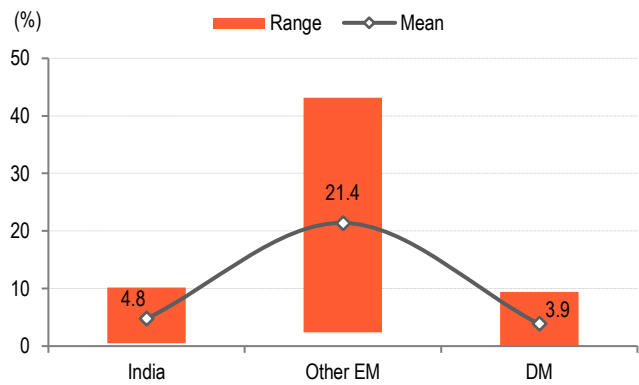
Source: Company, BOBCAPS Research

**Fig 13 – TCIEXP and TRPC have managed to grow EBITDA in a tough period**



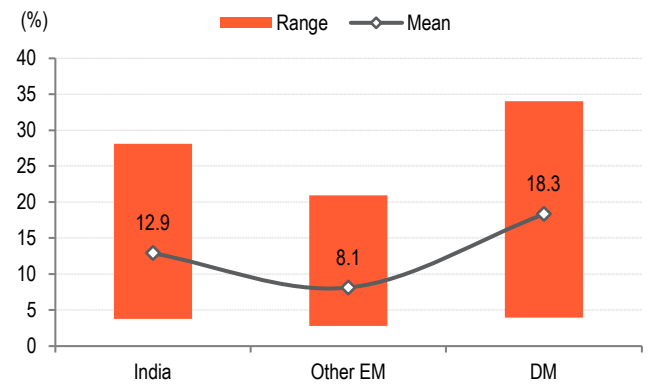
Source: Company, BOBCAPS Research

**Fig 14 – 5Y revenue CAGR of top logistics players in emerging markets (EM) and developed markets (DM)**



Source: Bloomberg, BOBCAPS Research

**Fig 15 – 5Y ROIC of top logistics players by region**



Source: Bloomberg, BOBCAPS Research



Fig 16 – Peer comparison

Company	Bloomberg Ticker	MCAp (US\$ bn)	Rating	Price Currency	CMP	Cons. Mean TP	Upside (%)	Daily Tr. Vol. 3M Avg (US\$ mn)	EPS Growth (%)		P/E (x)		P/B (x)		EV/ EBITDA (x)		Dividend Yield (%)	Net Debt/ EBITDA (x)
									FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY22E
Container Corp of India	CCRI IN	5.5	Sell	INR	676	676	(0.1)	30.1	88.1	22.6	37.9	30.9	3.9	3.6	22.5	17.4	1.1	(0.7)
Blue Dart Express	BDE IN	1.9	Not Rated	INR	5907	5662	(4.1)	2.9	132.1	33.3	59.3	44.5	16.3	14.2	18.1	15.4	0.5	0.2
TCI Express	TCIEXP IN	0.8	Hold	INR	1475	1391	(5.7)	2.9	29.9	19.9	43.4	36.2	10.5	8.6	NA	NA	0.5	NA
Mahindra Logistic	MAHLOG IN	0.6	Buy	INR	583	574	(1.4)	1.2	132.5	62.0	56.1	34.6	6.6	5.7	18.8	14.1	0.6	0.2
Allcargo Logistics	AGLL IN	0.5	Add	INR	158	160	0.8	2.1	42.4	15.2	8.9	7.7	1.5	1.4	NA	NA	1.7	NA
Gateway Distriparks	GDPL IN	0.5	Not Rated	INR	285	255	(10.7)	2.1	24.6	32.7	28.7	21.7	2.3	2.2	12.1	10.5	1.7	1.5
Transport Corp of India	TRPC IN	0.4	Hold	INR	400	440	10.0	2.2	31.1	20.7	16.0	13.2	2.3	2.0	10.4	8.6	0.7	0.4
VRL Logistics	VRLL IN	0.4	Buy	INR	316	319	1.0	2.2	82.4	43.4	34.7	24.2	4.1	3.8	NA	NA	2.2	NA
Gati	GTIC IN	0.3	Not Rated	INR	158	NA	NA	4.2	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Snowman Logistic	SNLL IN	0.1	Not Rated	INR	54	58	8.3	3.8	NA	NA	NA	NA	NA	NA	NA	NA	1.3	NA
<b>Aggregate</b>		<b>10.9</b>					<b>(1.2)</b>	<b>16.5</b>	<b>86.5</b>	<b>27.1</b>	<b>40.2</b>	<b>31.4</b>	<b>6.5</b>	<b>5.7</b>	<b>20.2</b>	<b>16.0</b>	<b>1.0</b>	<b>NA</b>

Company	Bloomberg Ticker	MCAp (US\$ bn)	Rating	Price Currency	CMP	Cons. Mean TP	Upside (%)	Daily Tr. Vol. 3M Avg (US\$ mn)	EPS Growth (%)		P/E (x)		P/B (x)		EV/ EBITDA (x)		Dividend Yield (%)	Net Debt/ EBITDA (x)
									2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2021E
S F Holding	002352 CH	46.2	Not Rated	CNY	66	85	29.4	259.0	(33.7)	56.9	60.2	38.4	4.7	4.2	23.9	16.4	0.3	0.2
ZTO Express Cayman	2057 HK	24.0	Not Rated	HKD	225	281	24.6	3.4	NA	28.6	30.5	23.7	3.0	2.7	NA	NA	0.9	NA
Hyundai Glovis	086280 KS	6.7	Not Rated	KRW	2,05,500	2,41,824	17.7	32.5	10.6	10.3	11.5	10.4	1.4	1.3	6.1	5.5	1.8	(0.1)
Agility	AGLTY KK	6.6	Not Rated	KWd	941	852	(9.4)	13.7	88.0	12.5	23.5	20.9	1.7	1.6	NA	NA	1.9	NA
Sinotrans	598 HK	5.2	Not Rated	HKD	3	4	28.2	3.6	15.5	8.6	6.2	5.7	0.6	0.5	8.3	7.4	4.9	0.4
YTO Express	600233 CH	4.8	Not Rated	CNY	10	13	34.0	15.7	(3.1)	14.4	17.9	15.6	1.6	1.5	7.9	6.6	1.5	(0.6)
CJ Logistics	000120 KS	3.6	Not Rated	KRW	1,82,500	2,24,182	22.8	7.9	57.3	5.1	21.5	20.5	1.1	1.1	8.7	7.9	0.0	2.4
Xiamen C & D	600153 CH	3.3	Not Rated	CNY	8	12	65.8	15.0	15.9	12.3	4.0	3.6	0.5	0.5	NA	NA	7.5	NA
Xiamen Xiangyu	600057 CH	2.5	Not Rated	CNY	7	8	8.5	18.9	45.0	20.1	9.5	7.9	1.1	1.1	NA	NA	NA	NA
STO Express	002468 CH	1.8	Not Rated	CNY	8	9	13.5	11.3	245.0	266.7	110.0	30.0	1.3	1.3	17.1	9.6	1.8	2.9
<b>Aggregate</b>		<b>104.7</b>					<b>25.4</b>	<b>120.2</b>	<b>(1.0)</b>	<b>39.8</b>	<b>39.9</b>	<b>26.9</b>	<b>3.1</b>	<b>2.9</b>	<b>18.8</b>	<b>13.3</b>	<b>1.3</b>	<b>NA</b>

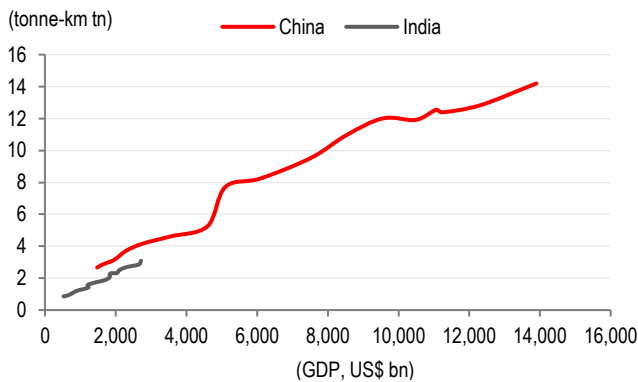
Company	Bloomberg Ticker	MCAp (US\$ bn)	Rating	Price Currency	CMP	Cons. Mean TP	Upside (%)	Daily Tr. Vol. 3M Avg (US\$ mn)	EPS Growth (%)		P/E (x)		P/B (x)		EV/ EBITDA (x)		Dividend Yield (%)	Net Debt/ EBITDA (x)
									2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2021E
United Parcel	UPS US	184.1	Not Rated	USD	212	217	2.7	720.7	33.1	5.6	19.3	18.3	16.9	10.7	13.3	12.3	2.0	0.6
Deutsche Post	DPW GR	85.8	Not Rated	EUR	59	63	6.8	165.8	48.3	(1.6)	16.0	16.3	4.4	4.0	7.9	7.8	2.7	1.3
Fedex	FDX US	78.5	Not Rated	USD	296	343	15.9	647.9	16.5	11.9	14.0	12.5	2.9	2.4	8.0	7.3	1.0	1.1
DSV Panalpina	DSV DC	55.5	Not Rated	DKK	1556	1527	(1.9)	83.5	55.9	6.5	37.7	35.4	7.1	6.9	21.9	20.4	0.4	1.3
Kuehne + Nagel	KNIN SW	42.1	Not Rated	CHF	321	259	(19.2)	56.3	69.8	(8.7)	29.7	32.5	12.2	10.7	15.4	16.0	1.9	(0.2)
Expeditors Intl Wash	EXPD US	21.6	Not Rated	USD	128	114	(11.2)	146.7	47.9	(14.1)	21.3	24.8	6.7	5.9	13.7	15.5	0.9	(1.9)
JB Hunt	JBHT US	17.9	Not Rated	USD	170	178	4.6	106.4	39.1	16.6	25.7	22.1	5.9	5.3	12.4	11.1	0.7	0.6
CH Robinson	CHRW US	12.6	Not Rated	USD	95	102	7.3	103.0	36.6	(0.2)	18.6	18.7	7.0	6.3	13.6	13.6	2.2	0.9
Yamato Holdings	9064 JP	11.6	Not Rated	JPY	3290	3588	9.1	26.8	(0.1)	13.2	21.7	19.2	2.0	1.9	7.8	7.2	1.4	(0.5)
Nippon Express	9062 JP	7.2	Not Rated	JPY	8220	9221	12.2	23.1	(10.1)	16.8	15.1	12.9	1.2	1.2	7.2	5.5	2.3	0.2
<b>Weighted Average</b>		<b>517.0</b>					<b>3.0</b>	<b>409.4</b>	<b>39.5</b>	<b>5.9</b>	<b>21.1</b>	<b>20.4</b>	<b>9.7</b>	<b>7.1</b>	<b>12.5</b>	<b>11.9</b>	<b>1.7</b>	<b>0.8</b>

Source: Bloomberg, BOBCAPS Research | NR – Not Rated

## Focus on consumption; majority yet to be targeted

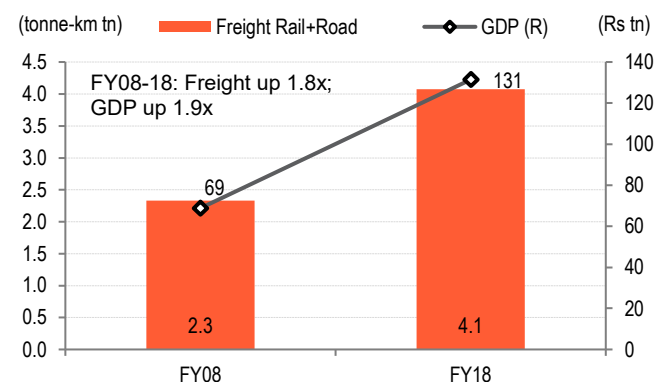
MAHLOG estimates India's logistics market at Rs 19.6tn with volumes growing in line with GDP growth. Listed logistics players are dependent on sectors such as automobiles, FMCG and engineering that comprise only a fraction of overall logistics spend and have grown slowly in recent years due to economic and policy headwinds.

**Fig 17 – Freight volumes can grow with rising GDP**



Source: World Bank, OECD, BOBCAPS Research | 2003-18 Range (ECD data doesn't match the Indian data)

**Fig 18 – Freight traffic has grown in line with GDP**



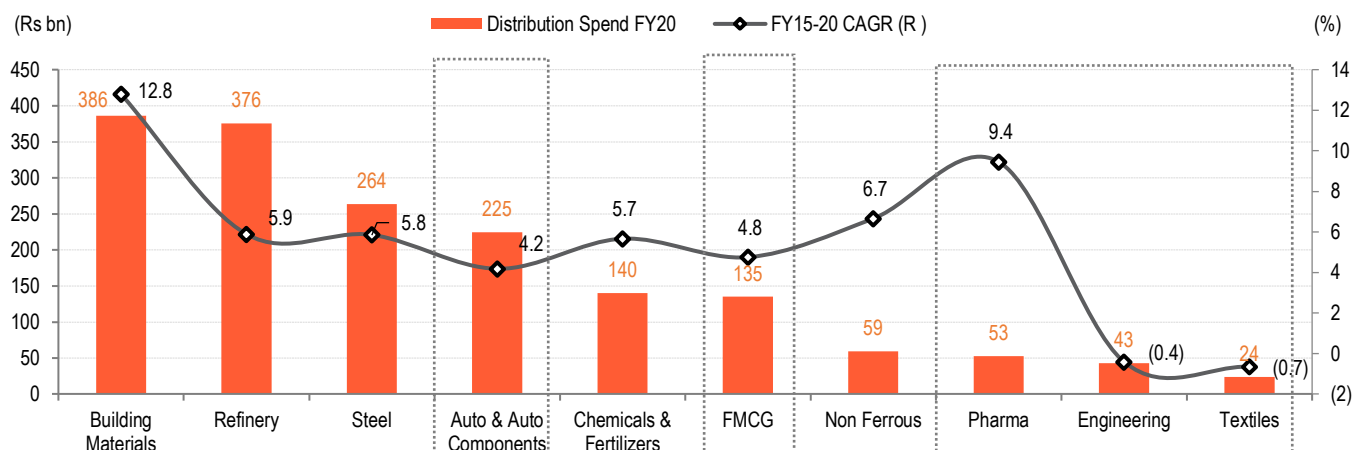
Source: National Rail Plan

## Targeted client spends form a fraction of total market

The growth in the logistics sector varies across end-user segments. We use CMIE's Prowess database to analyse the trends in logistics spend (or distribution expenses) across industries. Key findings:

- Market dominated by commodity segments that are not targeted by large logistics players:** Building materials (mostly cement), refineries and steel are the largest spenders on logistics services. In our view, foodgrain which is mainly transported by government agencies also represents a large potential market. This sector is, however, not targeted by logistics players as it is relatively commoditised. In addition, commodity industries also use Indian Railways and captive sources.
- Targeted segments have grown at a relatively slow pace:** Auto, FMCG, textiles, pharmaceuticals and engineering are key areas targeted by logistics companies, but all these sectors barring pharma have delivered sluggish growth in the past five years due to economic and policy headwinds.
- Logistics spend has moved in line with revenues:** Distribution spend has typically moved in tandem with revenue spend, except in the case of commodity industries where changes in commodity prices lead to volatility in the distribution expense-to-revenue ratio.

**Fig 19 – Distribution spending trends in India's corporate sector**



Source: CMIE Prowess Database, BOBCAPS Research

**Fig 20 – Spending has broadly moved with revenues**

Distribution Expenses by Revenue (%)	FY15	FY16	FY17	FY18	FY19	FY20
Building Materials	17.1	17.4	17.5	20.5	21.7	20.6
Refinery	1.8	2.4	2.1	2.0	1.7	1.8
Steel	4.3	4.1	4.2	4.6	4.0	4.8
<b>Auto &amp; Auto Components</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>
Chemicals & Fertilizers	4.5	5.1	5.0	5.0	4.6	4.4
<b>FMCG</b>	<b>3.0</b>	<b>2.8</b>	<b>2.7</b>	<b>2.8</b>	<b>3.0</b>	<b>2.9</b>
Non-Ferrous	2.1	2.2	2.5	2.3	2.6	2.7
<b>Pharma</b>	<b>2.2</b>	<b>2.0</b>	<b>2.0</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>
<b>Engineering</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>
<b>Textiles</b>	<b>1.8</b>	<b>1.6</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>	<b>2.1</b>
<b>Overall Average</b>	<b>2.6</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>

Source: Company, BOBCAPS Research

**Note:** Distribution expense data for FY20 is available for ~1,900 companies with combined revenue of Rs 94tn, over 45% of India's FY20 nominal GDP. FY15-FY20 data is available for ~900 companies with combined FY20 revenue of Rs 57tn, ~30% of India's FY20 nominal GDP. This does not include spends by state/central government and their agencies.

## Structural growth drivers yet to take root

Organised logistics players have grown in line with the broader market which indicates that the expected structural growth drivers for the sector – formalisation, outsourcing and manufacturing/warehousing ramp-up – are yet to kick in.

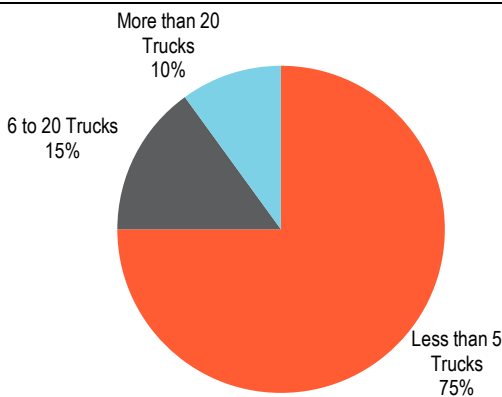
### #1: Formalisation expected to gather pace

Shift to organised sector driven by GST, consuming industries themselves becoming formalised, and Covid-19 disruptions

Road transport is dominated by the unorganised sector with 75% of truckers owning less than five trucks. Warehousing is also dominated by the informal sector with relatively small spaces. In our view, trends are now favouring growth of the organised logistics sector:

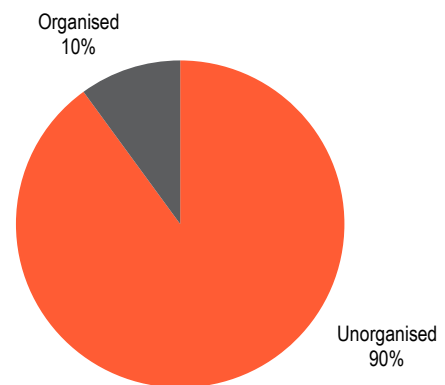
- With the share of the organised sector in consuming industries increasing, larger enterprises are more likely to work with professional logistics firms.
- Prolonged disruptions in both 2020 and 2021 due to Covid-19 are expected to have hurt unorganised players.
- E-way bill requirements (for all goods valued above Rs 50,000 and limited to movement of 200km per day) are not easy for smaller players to navigate.

**Fig 21 – Over 75% of fleet owned by small operators**



Source: Niti Aayog

**Fig 22 – Over 90% of warehousing space unorganised**



Source: Niti Aayog

The higher share of unorganised players and infrastructure is also reflected in the sector’s shorter average travel distance and lower truck utilisation. A shift to organised players will, therefore, help the industry lower costs.

**Fig 23 – Truck productivity**

Parameter	India	BRICS	USA	Europe
Daily Average Running Distance (km)	325	500	800	800
Empty Running (%)	35.5	NA	21.0	22.5
Logistics Cost as a % of GDP	14	10	8	9

Source: Niti Aayog



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3PL share at ~3% vs. 10% global average. Companies still firming up strategies for a post GST supply chain

## #2: 3PL has a long way to go

The logistics industry is dominated by plain vanilla transport services while the penetration of 3PL (third-party logistics) remains low. As per MAHLOG, India's 3PL market is just 3% of the total logistics market versus 10% globally. Even industries dominated by organised players carry ample scope for 3PL services, in our view.

For instance, auto companies typically engage 3PL players for inbound logistics to manage the supply chain around a large manufacturing unit but tend to contract multiple players including pure transporters for outbound logistics.

In FMCG, logistics was managed by C&F agents before the advent of GST and logistics players had no direct interaction with these companies. They have now started dealing with FMCG clients directly and the latter are choosing a few service providers to manage each zone. FMCG companies are still to firm up their logistics plans and also have to adapt to an omnichannel world where sales are through multiple channels. In ecommerce as well, logistics companies work with multiple vendors.

## #3: Large manufacturing and warehousing capacities

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Larger manufacturing and warehousing should lead to higher mileage

The buildout of manufacturing and warehousing capacities with scale is likely to gather pace in a post GST world to save costs. This would increase the travel distance per tonne. In addition, development of better road infrastructure will encourage companies to locate manufacturing and warehouses in places with cheaper land – another positive for the logistics industry.

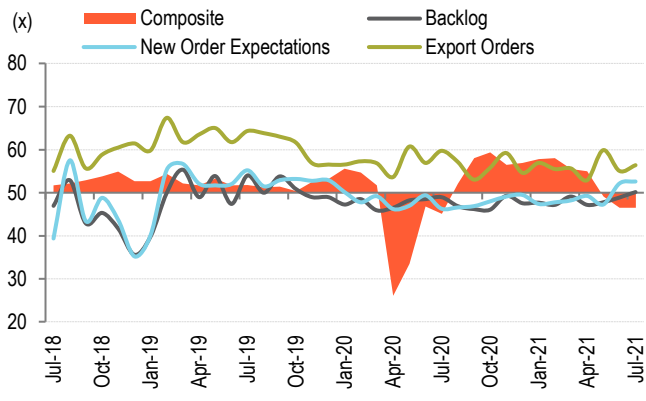
## Demand recovery underway

A post Covid-19 recovery is underway, in our view. Manufacturing PMI, albeit still in contraction mode, is likely to improve as new orders flow in to fill inventory ahead of the festive season. Key logistics customer, auto, also saw sales soar in Jun'21. Merchandise trade has held up well and rail movement of industrial commodities and container traffic has remained stable. Road traffic is improving with e-way bill and Fastag toll collections rising MoM in June.

## Economic indicators have held up

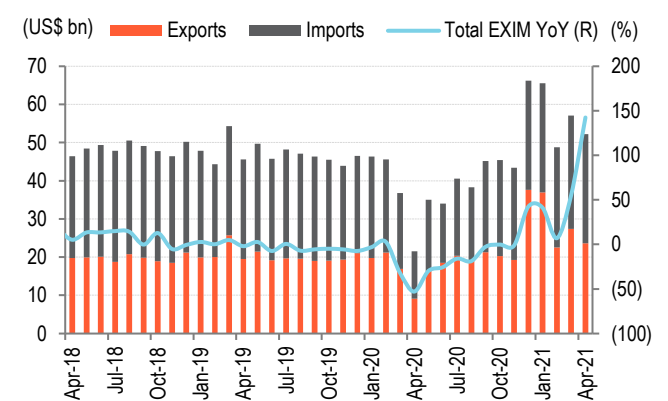
While economic activity has been impeded by the Covid-19 crisis over the last few months, key logistics indicators have held up well. Exports which are an important driver of the logistics sector have shown resilience, with trade in value terms actually increasing. Manufacturing PMI has fallen but forward-looking orders index indicate recovery ahead.

**Fig 24 – Decline in manufacturing PMI but fwd-looking orders point to recovery (+50 expansion/-50 contraction)**



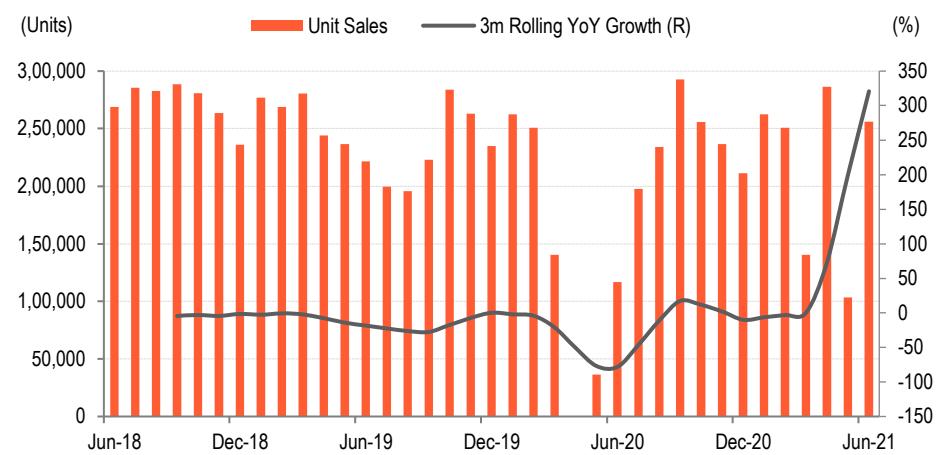
Source: Bloomberg

**Fig 25 – Non-oil, non-gold foreign trade remains strong**



Source: Director General of Foreign Trade

**Fig 26 – Auto sales have started to recover**

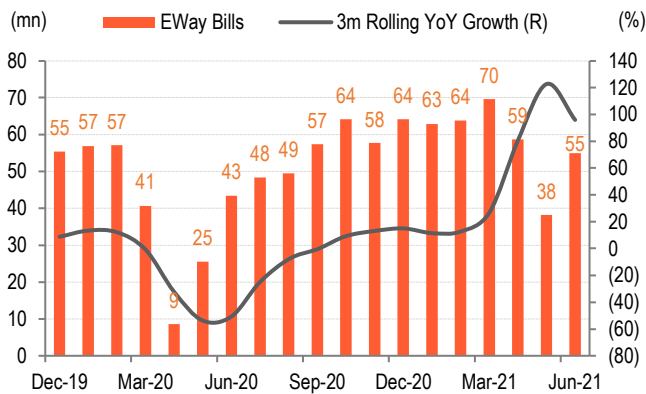


Source: SAIM

### Road sector indicators improving

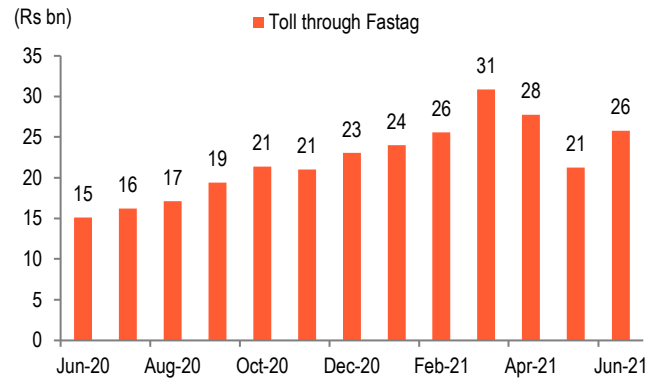
E-way bill generation has picked up in Jun'21, rising 26.7% YoY and 10.6% vs. 2019 (pre-Covid) after falling 29.6% last month vs. May'19. In Apr'21, e-way bill generation was 11% higher than the same period in 2019. Highway toll collections fell for two successive months in April and May after it became mandatory to use the Fastag electronic toll system from mid-February, but have begun to recover.

**Fig 27 – E-way bills revived in June after dip in May**



Source: GST Council

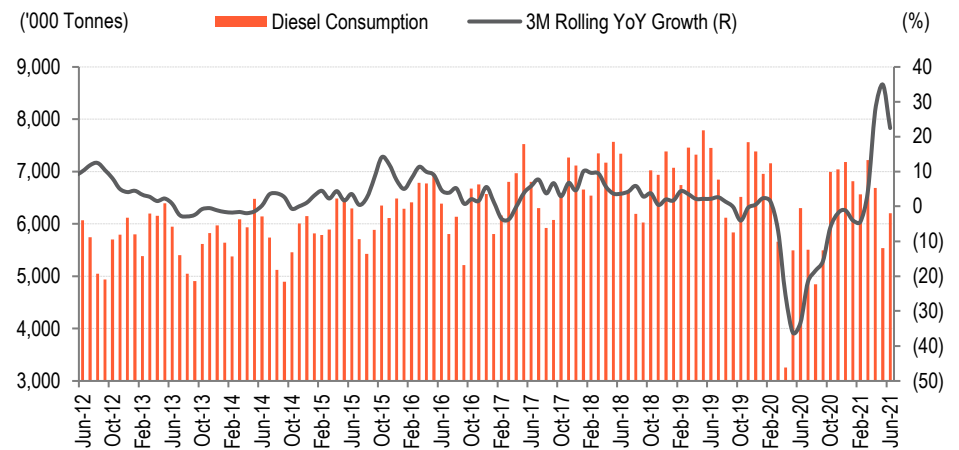
**Fig 28 – Highway toll collections has started recovering**



Source: National Payments Corporation of India

Diesel consumption, a strong indicator of road transport demand, has fallen by 29% in May'21 and 9% in Apr'21 versus the more normal FY19 period but remains higher against the weak base of 2020 due to Covid-related lockdowns.

**Fig 29 – Diesel demand decline has been marginal**

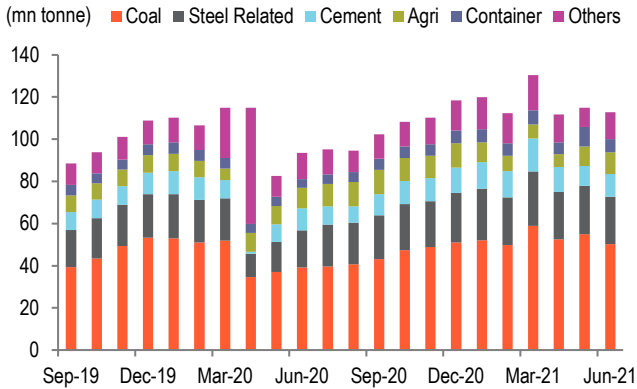


Source: Bloomberg, Ministry of Petroleum

### Rail traffic remains resilient

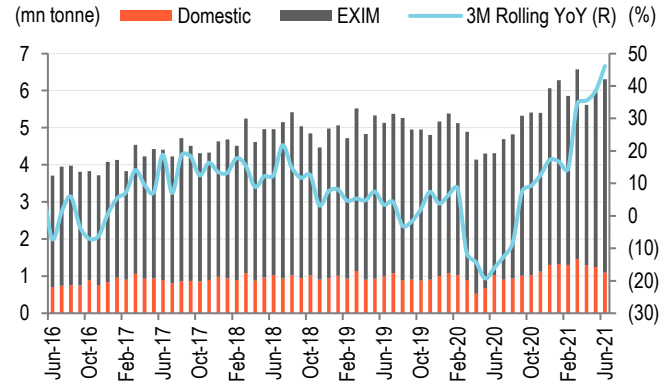
Railway traffic has continued to soar despite the impact of Covid-19, rising 12-16% in April-May against the more normal months of April-May'19. Completion of the DFC expected in FY23 will increase railway freight capacity through a dedicated track as well as through double stacking of containers.

**Fig 30 – Strong coal & steel shipments driving rail traffic**



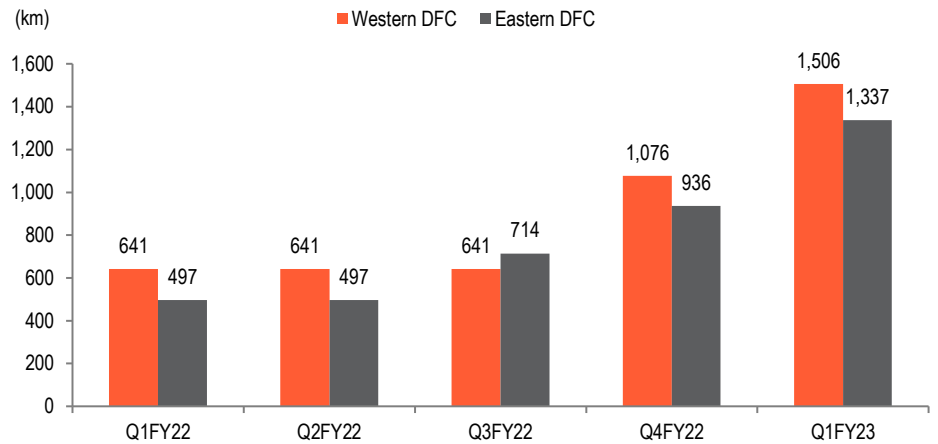
Source: Railway Board

**Fig 31 – Railway container traffic remains robust**



Source: Railway Board

**Fig 32 – Both Western and Eastern DFC expected to be completed in FY23**

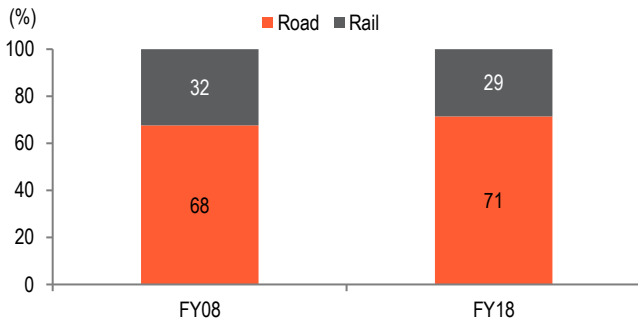


Source: DFC Corporation of India Ltd

## Annexure: Road versus Rail

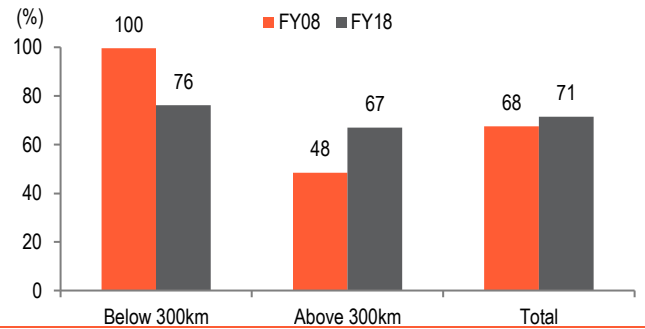
Road has traditionally dominated freight movement in India (+70%) in contrast to China (~35%). This is a function of multiple factors such as congested routes, higher freight rates charged by the railways to cover losses in its passenger operations, and slower speeds. However, rail has to become a critical component of India's logistics industry in order to reduce the logistics cost which is currently very high at 14% of GDP.

**Fig 33 – Road and rail share in goods transport has not changed much...**



Source: National Rail Plan

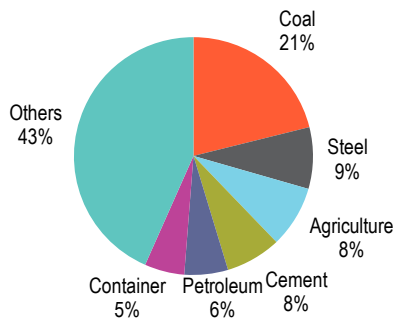
**Fig 34 – ...but share of roads has risen for higher distances (+300km) but has fallen for travel under 300km**



Source: National Rail Plan

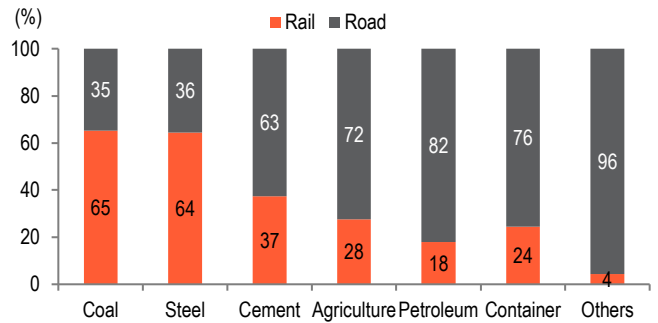
Rail is the cheapest and cleanest way to carry goods but despite India's large rail network, its share is low. Category-wise, bulk commodities are the main drivers of logistics volumes, though from a listed company perspective, containers and other categories such as auto and pharma are the main sources of demand

**Fig 35 – Rail+Road freight mix, FY18**



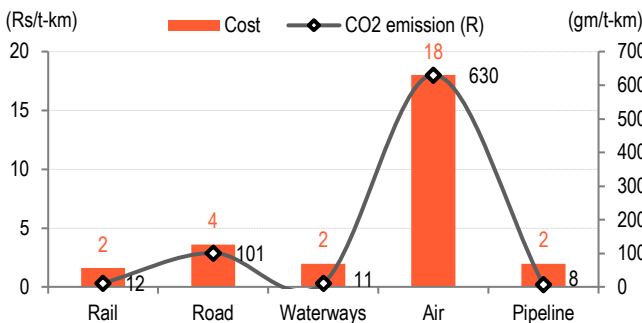
Source: National Rail Plan

**Fig 36 – Road dominates all sectors except coal and steel**



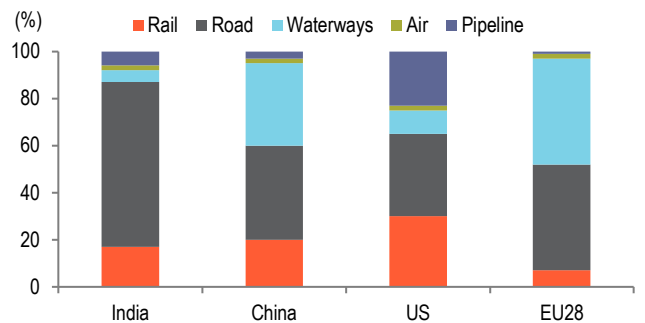
Source: National Rail Plan

**Fig 37 – Rail and waterways – cheapest and cleanest modes of transport...**



Source: Niti Aayog | t-km = tonne-kilometer

**Fig 38 – ...but road transport dominates in India**



Source: Niti Aayog





**Companies**

**SELL**

TP: Rs 521 | ▼ 23%

**CONTAINER CORP OF INDIA**

| Logistics

| 15 July 2021

## Valuations heady as disinvestment prospects brighten

- CCRI well positioned to benefit from containerisation and multimodal transport growth, further catalysed by upcoming DFC completion
- Valuations lofty at 10-year peak of 32x FY23E EPS, having shot up over the past two months on disinvestment prospects
- We cut FY22/FY23 EPS due to Covid and higher costs. New DCF TP of Rs 521 (vs. Rs 505) implies 24x FY23E P/E, 7% discount to mean

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**Best exposed to containerisation and multimodal transport:** CCRI is a key integrator of container transport using rail. Given that rail is the cheapest means of transport and more cargo is getting containerised, the company should benefit. Completion of the Dedicated Freight Corridor (DFC) by Jun'22 will pull more traffic towards rail as speeds rise significantly compared to the current congested rail network. DFC will also allow double-stacking on containers which could theoretically double the capacity per train. We expect 15%/20% growth in EXIM/domestic traffic owing to the DFC in FY24 – the first full year of the corridor's operations.

**LLF resolution to pave way for disinvestment:** Land licensing fee (LLF) payable to the Indian Railways (IR) is the largest fixed cost for CCRI. A proposed policy change would allow for long-term lease of railway land (at 35 years from 5 years). CCRI plans to pay upfront for a 35-year lease which will lead to better predictability of costs. Once this happens, disinvestment of the government's 55% stake in the company is likely to gather pace. IR is also believed to be reducing the LLF by over 50% from the current rate of 6% of land value, but this is a less preferred option as prices could change based on government estimates, leading to volatility. We estimate that for every 10% increase in LLF, FY23 EPS will decrease by 2.7%.

**Stock pricing in sharp growth:** At ~36x consensus forward P/E, CCRI is trading at peak multiples based on its own history. The stock is implying 10-year FCF growth of ~45% based on our reverse DCF analysis with a terminal growth estimate of 5%. While the company is likely to register a strong rebound next year off a weak base, we believe long-term growth would be capped by a 5-10% volume uptick.

**Retain SELL:** We cut FY22/FY23 EPS estimates by 28%/16% to account for the Covid-19 impact, placing us 15%/3% below consensus due to lower revenue and margin assumptions. Given high valuations, we maintain SELL on CCRI. Our new DCF-based TP of Rs 521 (Rs 505 earlier) implies an FY23E P/E of 24.4x and P/B of 2.7x, 6-7% discount to the historical mean. Divestment at a discount to current prices and delays in finalising an LLF agreement with the IR represent downside risks to the stock.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CCRI IN/Rs 676
Market cap	US\$ 5.5bn
Free float	45%
3M ADV	US\$ 28.6mn
52wk high/low	Rs 748/Rs 351
Promoter/FPI/DII	55%/24%/17%

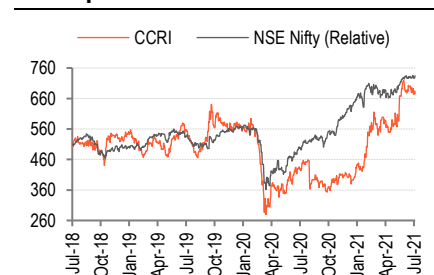
Source: NSE | Price as of 14 Jul 2021

## Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	64,271	73,619	83,411
EBITDA (Rs mn)	11,168	15,108	19,821
Adj. net profit (Rs mn)	6,538	9,289	12,994
Adj. EPS (Rs)	10.7	15.3	21.3
Consensus EPS (Rs)	0.0	17.9	21.9
Adj. ROAE (%)	6.5	8.8	11.6
Adj. P/E (x)	63.0	44.3	31.7
EV/EBITDA (x)	36.2	25.7	19.4
Adj. EPS growth (%)	(47.9)	42.1	39.9

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE

## Valuation methodology

We cut our FY22/FY23 EPS estimates by 28%/16% based on lower revenue and margin assumptions following the weak FY21 results. Our estimates are 15%/3% below consensus. We now expect CCRI to clock a 14%/41% revenue/PAT CAGR over FY21-FY23.

**Fig 1 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	73.6	83.4	75.7	87.9	(2.8)	(5.1)
EBITDA	15.1	19.8	19.6	23.2	(23.0)	(14.5)
EBIT	9.2	13.6	13.5	16.2	(31.4)	(16.4)
Pretax Income	12.3	17.1	17.4	20.6	(29.4)	(16.8)
Net Income	9.3	13.0	13.0	15.4	(28.4)	(15.7)
EPS (Rs/sh)	15.3	21.3	21.3	25.3	(28.4)	(15.7)

Source: BOBCAPS Research

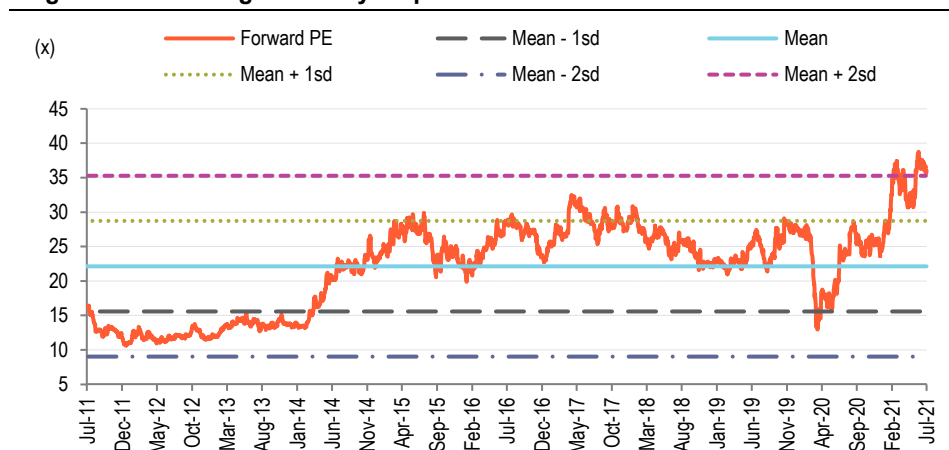
**Fig 2 – Estimates vs. Consensus**

(Rs bn)	BOBCAPS		Consensus		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	73.6	83.4	74.4	90.0	(1.1)	(7.3)
EBITDA	15.1	19.8	17.7	22.8	(14.7)	(13.0)
EBIT	9.2	13.6	11.7	16.8	(20.9)	(19.2)
Pretax Income	12.3	17.1	13.8	18.5	(11.0)	(7.3)
Net Income	9.3	13.0	11.1	13.6	(16.0)	(4.6)
EPS	15.3	21.3	17.9	21.9	(14.6)	(2.6)

Source: BOBCAPS Research, Bloomberg

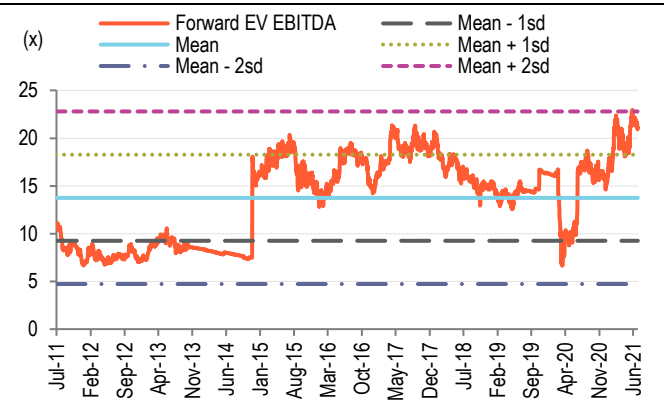
At 36x forward P/E, CCRI is currently trading close to its peak multiples based on its own as well as peer history. Using a reverse DCF analysis with a terminal growth estimate of 5%, we find that the stock price implies 10-year FCF growth of ~45% – a significant premium to the mean of 30% (see chart below). Our EBITDA growth expectations are well below this.

**Fig 3 – CCRI trading at its 10-year peak**



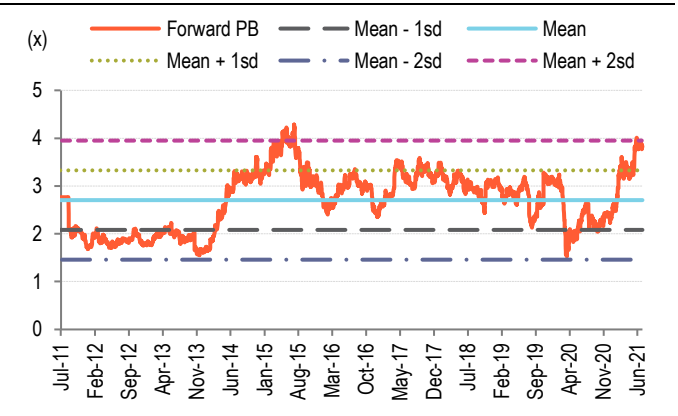
Source: Bloomberg

**Fig 4 – EV/EBITDA close to peak**



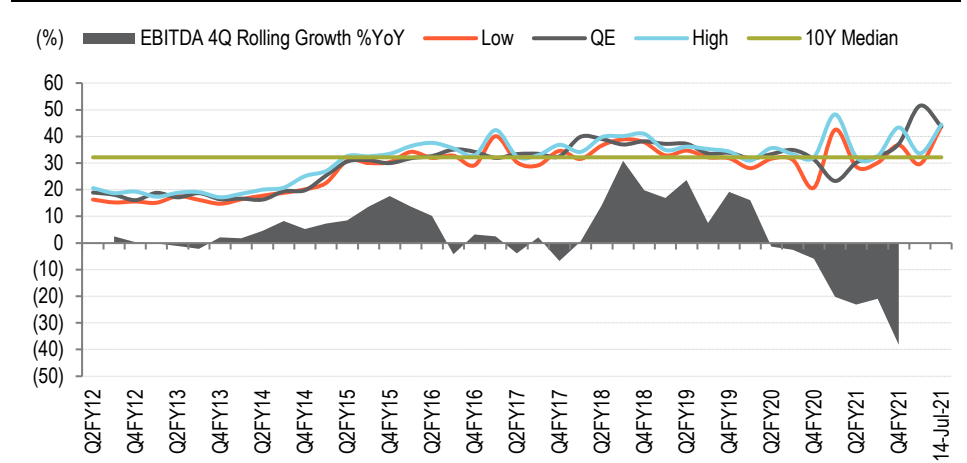
Source: Bloomberg

**Fig 5 – P/B close to peak**



Source: Bloomberg

**Fig 6 – Stock price-implied FCF growth vs. actual EBITDA growth**



Source: Bloomberg, BOBCAPS Research

While the company is likely to register a strong rebound next year off a weak base, we believe long-term performance would be capped by slow 5-10% volume growth. We maintain SELL on CCRI due to its high valuations. Our new DCF-based TP of Rs 521 (Rs 505 earlier) implies an FY23E P/E of 24.4x and P/B of 2.7x, a discount of 7% and 6% respectively to the historical five-year mean.

We have valued the company based on a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate is based on the risk-free rate as on end Jun'21, gearing and estimated beta as on end Jun'21 (based on two-year weekly returns). We have shifted to DCF from a target P/E-based valuation as this method offers the advantage of assessing the company's capital usage (working capital & capex) and capital structure, besides earnings.

**Fig 7 – DCF assumptions**

Variable	Assumption	Basis	
Risk Free Rate (%) (A)	6.0	Indian 10-year TB yield as of end-Jun'21	
Equity Risk Premium (%) (B)	6.9	NYU Stern India equity risk premium	
Beta (C)	1.1	Weekly returns over 2 years as of end-Jun'21	
Cost of Equity (%) (D)= A + B x C	13.4		
Cost of Debt (E)	8.0		
Marginal Tax Rate (%) (F)	25.2		
Post-Tax Cost of Debt (%) (G)= E x (1-F)	5.99		
Current Debt to Equity (2021) (H)	0.00		
WACC (I)= (1 x D + H x G)/(1 + H)	13.4		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3 (Terminal)</b>
FCF CAGR (%)	31.6	25.0	5.0

Source: BOBCAPS Research

**Fig 8 – Target price: Implied multiples**

Multiples (x)	Target price	Current price	Consensus 12M forward 5Y mean	Consensus 5Y range	Variance vs. CCRI 5Y historical mean (%)
P/E FY23E	24.4	32.1	26.3	13.0 - 38.7	(7.2)
EV/EBITDA FY23E	14.0	19.0	16.6	6.7 - 23	(15.5)
P/B FY23E	2.7	3.6	2.9	1.5 - 4.0	(5.8)

Source: Bloomberg, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- divestment at a premium to the current price, and
- a sharp increase in container traffic upon DFC completion.



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>65,394</b>	<b>64,271</b>	<b>73,619</b>	<b>83,411</b>	<b>97,813</b>
EBITDA	16,938	11,168	15,108	19,821	25,622
Depreciation	(5,444)	(5,534)	(5,867)	(6,267)	(6,734)
EBIT	11,494	5,634	9,241	13,553	18,889
Net interest inc./(exp.)	1,599	1,522	1,796	2,186	2,655
Other inc./(exp.)	475	753	753	753	753
Exceptional items	(8,518)	(1,487)	0	0	0
EBT	5,438	6,736	12,257	17,145	23,179
Income taxes	(1,381)	(1,730)	(2,968)	(4,151)	(5,612)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	367	358	467	653	883
<b>Reported net profit</b>	<b>4,035</b>	<b>5,051</b>	<b>9,289</b>	<b>12,994</b>	<b>17,567</b>
Adjustments	8,518	1,487	0	0	0
<b>Adjusted net profit</b>	<b>12,553</b>	<b>6,538</b>	<b>9,289</b>	<b>12,994</b>	<b>17,567</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,554	2,693	3,084	3,494	4,098
Other current liabilities	1,867	3,017	3,409	3,819	4,422
Provisions	380	1,375	1,375	1,375	1,375
Debt funds	636	618	0	0	0
Other liabilities	35,121	8,151	8,151	8,151	8,151
Equity capital	3,047	3,047	3,047	3,047	3,047
Reserves & surplus	97,601	98,991	1,05,234	1,13,582	1,24,649
Shareholders' fund	1,00,647	1,02,037	1,08,280	1,16,628	1,27,696
<b>Total liab. and equities</b>	<b>1,48,175</b>	<b>1,24,102</b>	<b>1,30,118</b>	<b>1,38,876</b>	<b>1,50,547</b>
Cash and cash eq.	21,916	25,428	31,732	40,054	50,485
Accounts receivables	1,646	1,608	1,842	2,087	2,447
Inventories	263	240	275	311	365
Other current assets	6,454	4,894	4,894	4,894	4,894
Investments	11,998	12,111	12,111	12,111	12,111
Net fixed assets	53,431	56,544	55,677	55,409	55,676
CWIP	0	0	0	0	0
Intangible assets	48	83	83	83	83
Deferred tax assets, net	267	0	0	0	0
Other assets	52,152	23,195	23,506	23,928	24,487
<b>Total assets</b>	<b>1,48,175</b>	<b>1,24,102</b>	<b>1,30,118</b>	<b>1,38,876</b>	<b>1,50,547</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>44,234</b>	<b>10,243</b>	<b>12,264</b>	<b>15,798</b>	<b>20,200</b>
Capital expenditures	(10,686)	(5,732)	(5,000)	(6,000)	(7,000)
Change in investments	(20,544)	2,813	0	0	0
Other investing cash flows	506	783	0	0	0
<b>Cash flow from investing</b>	<b>(30,724)</b>	<b>(2,136)</b>	<b>(5,000)</b>	<b>(6,000)</b>	<b>(7,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(7,070)	(18)	(618)	0	0
Interest expenses	0	(870)	350	374	374
Dividends paid	(6,831)	(3,564)	(3,046)	(4,646)	(6,500)
Other financing cash flows	13,101	4,339	3,315	4,272	6,125
<b>Cash flow from financing</b>	<b>(801)</b>	<b>(114)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>720</b>	<b>5,951</b>	<b>6,303</b>	<b>8,322</b>	<b>10,432</b>
<b>Closing cash &amp; cash eq.</b>	<b>21,916</b>	<b>25,428</b>	<b>31,732</b>	<b>40,054</b>	<b>50,485</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	6.6	8.3	15.3	21.3	28.8
Adjusted EPS	20.6	10.7	15.3	21.3	28.8
Dividend per share	3.6	5.0	7.6	10.7	14.4
Book value per share	165.2	167.5	177.7	191.4	209.6

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	6.2	6.3	5.3	4.6	3.8
EV/EBITDA	23.9	36.2	25.7	19.4	14.7
Adjusted P/E	32.8	63.0	44.3	31.7	23.4
P/BV	4.1	4.0	3.8	3.5	3.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	89.9	79.5	75.8	75.8	75.8
Interest burden (PBT/EBIT)	121.4	145.9	132.6	126.5	122.7
EBIT margin (EBIT/Revenue)	17.6	8.8	12.6	16.2	19.3
Asset turnover (Rev./Avg TA)	40.4	47.2	57.9	62.0	67.6
Leverage (Avg TA/Avg Equity)	1.6	1.3	1.2	1.2	1.2
<b>Adjusted ROAE</b>	<b>12.3</b>	<b>6.5</b>	<b>8.8</b>	<b>11.6</b>	<b>14.4</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(6.0)	(1.7)	14.5	13.3	17.3
EBITDA	(5.4)	(34.1)	35.3	31.2	29.3
Adjusted EPS	2.1	(47.9)	42.1	39.9	35.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.9	17.4	20.5	23.8	26.2
EBIT margin	17.6	8.8	12.6	16.2	19.3
Adjusted profit margin	19.2	10.2	12.6	15.6	18.0
Adjusted ROAE	12.3	6.5	8.8	11.6	14.4
ROCE	7.8	4.6	8.1	11.2	14.5
<b>Working capital days (days)</b>					
Receivables	9	9	9	9	9
Inventory	1	1	1	1	1
Payables	9	15	15	15	15
<b>Ratios (x)</b>					
Gross asset turnover	1.0	0.8	0.9	0.9	1.0
Current ratio	2.6	2.4	2.8	3.4	4.0
Net interest coverage ratio	(7.2)	(3.7)	(5.1)	(6.2)	(7.1)
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**

TP: Rs 701 | ▲ 20%

**MAHINDRA LOGISTICS**

| Logistics

| 15 July 2021

## Demand recovery to spur strong earnings growth

- Target to triple revenues in five years. Asset-light model and high operating leverage to aid strong earnings growth
- Stock trading at peak valuations but we expect robust +100% EPS CAGR in FY21-FY23 driven by recovery in auto and other sectors
- Retain BUY and raise TP to Rs 701 (vs. Rs 635), implying 35x FY23E P/E – a premium to historical mean justified by high earnings growth

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**Targeting 3x revenue growth in five years:** MAHLOG is looking to triple revenue to Rs 100bn in five years by developing a strong 3PL platform and capturing market share from unorganised logistics players. An asset-light model should help the company deliver high profitability from revenue growth.

**Strong earnings ahead:** We expect YoY recovery in auto sector demand (~60% of group revenue) as Covid restrictions ease. In addition, the non-auto supply chain management (SCM) segment is poised for a rebound on the back of economic recovery. The company's recent agreement with Bajaj Electricals to manage end-to-end SCM is also likely to kick in. We estimate a +100% CAGR in net income over FY21-FY23 driven by a combination of revenue growth (+20% CAGR) and high operating leverage, leading to EBITDA margin expansion of 240bps to 6.5% (FY23).

**M&M remains a key driver but efforts on to diversify:** Over 50% of MAHLOG's revenue comes from the transportation of finished vehicles and auto parts for M&M. While this provides steady business, it results in lower diversification versus peers. The company has been focusing on raising the contribution of non-M&M business.

**Strong growth outlook merits valuation premium:** MAHLOG trades at its peak P/E and P/B valuation multiples and is also the most expensive stock in the sector based on P/E. However, the current stock price implies annual FCF growth of ~20% based on our reverse two-stage DCF model with a terminal growth rate of 5%. This is slightly lower than the 22% EBITDA CAGR reported over FY15-FY20. Further, the company has the lowest capital intensity (capex+net working capital by sales) in the sector.

**Retain BUY:** We raise our FY22/FY23 EPS estimates by 1%/10% and have a new Jul'22 DCF-based TP of Rs 701 (Rs 635 earlier). Our target implies an FY23E P/E of 35x and P/B of 6.5x, a premium of 4% and 18% to the three-year mean respectively. Maintain BUY. Key stock price drivers include strong recovery in M&M sale volumes, new customer adds in 3PL business and earnings recovery. Key downsides are a weaker-than-expected recovery and lower margins from new businesses.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MAHLOG IN/Rs 583
Market cap	US\$ 559.9mn
Free float	42%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 615/Rs 273
Promoter/FPI/DII	58%/21%/12%

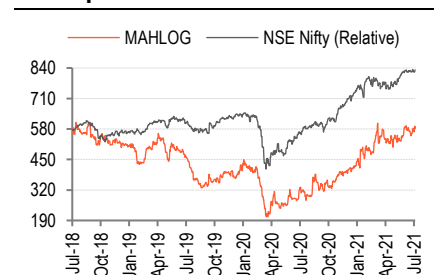
Source: NSE | Price as of 14 Jul 2021

## Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	32,637	40,897	46,618
EBITDA (Rs mn)	1,342	2,420	3,012
Adj. net profit (Rs mn)	328	985	1,434
Adj. EPS (Rs)	4.6	13.7	20.0
Consensus EPS (Rs)	0.0	10.4	16.8
Adj. ROAE (%)	5.9	16.2	20.2
Adj. P/E (x)	127.5	42.4	29.1
EV/EBITDA (x)	31.0	17.5	13.7
Adj. EPS growth (%)	(40.4)	200.9	45.5

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE

## Valuation methodology

We raise our FY22/FY23 EPS projections for MAHLOG by 1%/10% and are well above consensus. We estimate a +100% CAGR in net income over FY21-FY23 driven by revenue growth (+20% CAGR) and high operating leverage, aiding EBITDA margin expansion of 240bps to 6.5%.

**Fig 1 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	40.9	46.6	41.1	47.4	(0.5)	(1.6)
EBITDA	2.4	3.0	2.4	2.9	0.6	2.9
EBIT	1.4	1.9	1.4	1.8	3.9	10.7
Pretax Income	1.3	1.9	1.3	1.7	1.4	11.0
Net Income	1.0	1.4	1.0	1.3	1.0	10.1
EPS (Rs/sh)	13.7	20.0	13.6	18.2	0.8	9.9

Source: BOBCAPS Research

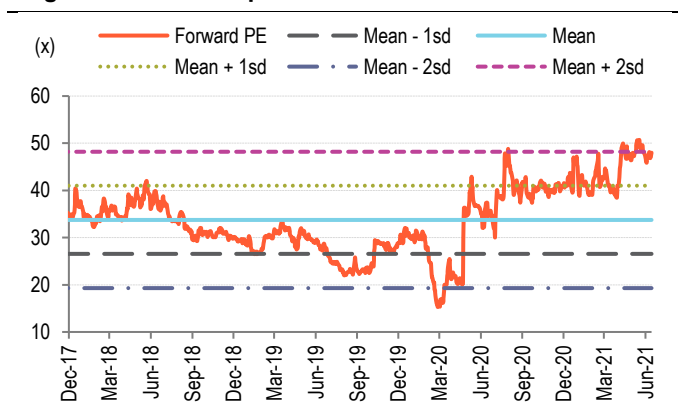
**Fig 2 – Estimates vs. Consensus**

(Rs bn)	BOBCAPS		Consensus		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	40.9	46.6	40.6	48.9	0.8	(4.6)
EBITDA	2.4	3.0	2.2	3.0	7.9	1.1
EBIT	1.4	1.9	1.2	1.8	16.7	5.5
Pretax Income	1.3	1.9	1.0	1.8	28.7	8.4
Net Income	1.0	1.4	0.8	1.3	27.7	13.1
EPS	13.7	20.0	10.4	16.8	32.4	19.0

Source: BOBCAPS Research, Bloomberg

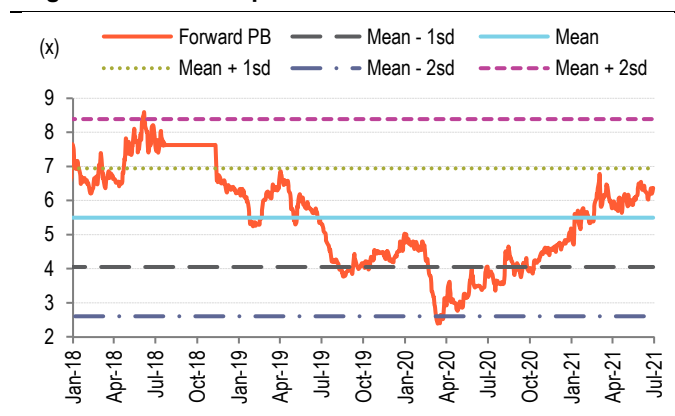
MAHLOG is trading close to its peak two-year forward P/E and P/B multiples. The stock is implying 10-year FCF growth of ~20% based on our reverse DCF analysis with a terminal growth estimate of 5%. This is slightly below the 22% EBITDA growth reported by the company over FY15-FY20 but higher than the sharp decline during the last few quarters. Also note that MAHLOG has the lowest capex intensity in the sector as measured by its capex-to-sales ratio.

**Fig 3 – P/E close to peak**



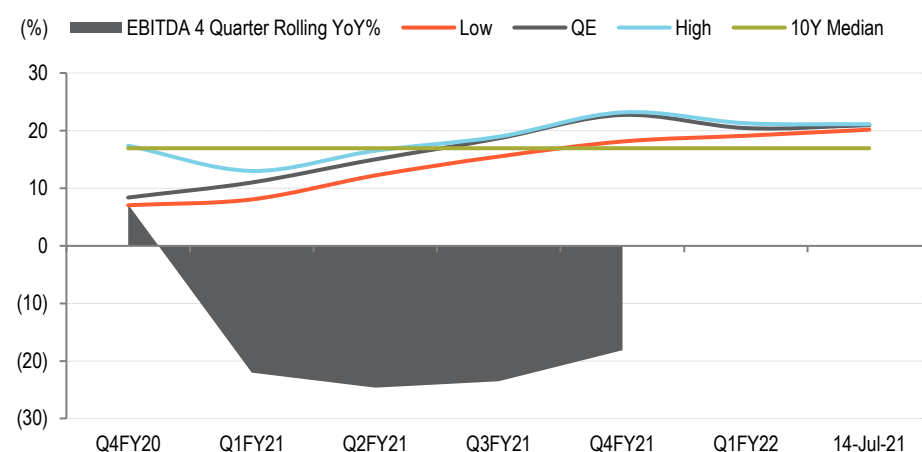
Source: Bloomberg

**Fig 4 – P/B close to peak**



Source: Bloomberg

**Fig 5 – Stock price-implied FCF growth vs. actual EBITDA growth**



Source: Bloomberg, BOBCAPS Research

Our new Jun'22 TP of Rs 701 (Rs 635 earlier) implies an FY23E P/E of 35.0x and P/B of 6.5x, 4% and 18% premium to the three-year mean respectively. We retain BUY as we believe the company's strong growth outlook and low capital intensity merits a valuation premium.

We have valued the company based on a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate is based on the risk-free rate as on end Jun' 21, gearing and estimated beta as on end Jun' 21 (based on two-year weekly returns). We have shifted to DCF from a target P/E-based valuation as this method offers the advantage of assessing the company's capital usage (working capital & capex) and capital structure, besides earnings.

**Fig 6 – DCF assumptions**

Variable	Assumption	Basis
Risk Free Rate (%) (A)	6.0	Indian 10-year TB yield as of end-Jun'21
Equity Risk Premium (%) (B)	6.9	NYU Stern India equity risk premium
Beta (C)	1.2	Weekly returns over 2 years as of end-Jun'21
Cost of Equity (%) (D) = A + B x C	14.0	
Cost of Debt (E)	8.0	
Marginal Tax Rate (%) (F)	25.2	
Post-Tax Cost of Debt (%) (G) = E x (1-F)	5.99	
Current Debt to Equity (2022) (H)	0.10	
WACC (I) = (1 x D + H x G)/(1 + H)	13.3	
	<b>Stage 1</b>	<b>Stage 2</b> <b>Stage 3 (Terminal)</b>
FCF CAGR (%)	25.9	15.0      5.0

Source: BOBCAPS Research

**Fig 7 – Target price: Implied multiples**

Multiples (x)	Target Price	Current Price	Consensus 12M forward 3Y mean	Consensus 3Y range	Variance vs. MAHLOG 3Y historical mean (%)
P/E FY23E	35.0	29.1	33.7	15.3 - 50.7	3.9
EV/EBITDA FY23E	15.9	13.1	15.9	7.5 - 24.1	-0.2
P/B FY23E	6.5	5.4	5.5	2.4 - 8.6	18.4

Source: Bloomberg, BOBCAPS Research

## Key risks

Key downside risks to our estimates include:

- weaker-than-expected recovery,
- lower margins from new businesses, and
- slow sign-up of new customers.



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>34,711</b>	<b>32,637</b>	<b>40,897</b>	<b>46,618</b>	<b>53,999</b>
EBITDA	1,582	1,342	2,420	3,012	4,281
Depreciation	(734)	(897)	(997)	(1,072)	(1,152)
EBIT	848	446	1,423	1,940	3,129
Net interest inc./(exp.)	(76)	(54)	(135)	(52)	(62)
Other inc./(exp.)	39	28	28	28	28
Exceptional items	0	(28)	0	0	0
EBT	805	388	1,317	1,916	3,095
Income taxes	(257)	(100)	(331)	(482)	(779)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(3)	8	0	0	0
<b>Reported net profit</b>	<b>551</b>	<b>300</b>	<b>985</b>	<b>1,434</b>	<b>2,316</b>
Adjustments	0	28	0	0	0
<b>Adjusted net profit</b>	<b>551</b>	<b>328</b>	<b>985</b>	<b>1,434</b>	<b>2,316</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	6,172	7,661	9,599	10,218	8,877
Other current liabilities	6,228	7,721	9,660	10,278	8,937
Provisions	157	159	159	159	159
Debt funds	1,947	2,667	672	31	791
Other liabilities	211	187	187	187	187
Equity capital	715	717	717	717	717
Reserves & surplus	4,731	4,964	5,770	7,007	9,037
Shareholders' fund	5,447	5,681	6,487	7,724	9,754
<b>Total liab. and equities</b>	<b>14,218</b>	<b>16,787</b>	<b>17,537</b>	<b>18,750</b>	<b>20,199</b>
Cash and cash eq.	995	2,528	2,045	2,331	2,700
Accounts receivables	5,224	4,856	6,085	7,025	8,137
Inventories	0	0	0	0	0
Other current assets	3,626	4,659	4,659	4,659	4,659
Investments	31	0	0	0	0
Net fixed assets	2,256	3,392	3,397	3,385	3,352
CWIP	0	0	0	0	0
Intangible assets	10	182	182	182	182
Deferred tax assets, net	200	221	221	221	221
Other assets	1,876	949	949	949	949
<b>Total assets</b>	<b>14,218</b>	<b>16,787</b>	<b>17,537</b>	<b>18,750</b>	<b>20,199</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>0</b>	<b>0</b>	<b>2,798</b>	<b>2,208</b>	<b>1,049</b>
Capital expenditures	(624)	(712)	(1,001)	(1,060)	(1,119)
Change in investments	0	0	0	0	0
Other investing cash flows	943	(416)	0	0	0
<b>Cash flow from investing</b>	<b>319</b>	<b>(1,128)</b>	<b>(1,001)</b>	<b>(1,060)</b>	<b>(1,119)</b>
Equities issued/Others	4	2	0	0	0
Debt raised/repaid	0	(67)	(1,995)	(642)	760
Interest expenses	0	0	(280)	(193)	(217)
Dividends paid	(155)	(107)	(179)	(197)	(286)
Other financing cash flows	(461)	(530)	2,454	1,032	(257)
<b>Cash flow from financing</b>	<b>(612)</b>	<b>(702)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(408)</b>	<b>(1,955)</b>	<b>(484)</b>	<b>286</b>	<b>369</b>
<b>Closing cash &amp; cash eq.</b>	<b>995</b>	<b>2,528</b>	<b>2,045</b>	<b>2,331</b>	<b>2,700</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	7.7	4.2	13.7	20.0	32.3
Adjusted EPS	7.7	4.6	13.7	20.0	32.3
Dividend per share	1.5	2.5	2.7	4.0	6.5
Book value per share	76.0	79.3	90.5	107.8	136.1

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.2	1.3	1.0	0.9	0.7
EV/EBITDA	25.7	31.0	17.5	13.7	9.3
Adjusted P/E	76.0	127.5	42.4	29.1	18.0
P/BV	7.7	7.4	6.4	5.4	4.3

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	68.4	78.8	74.8	74.8	74.8
Interest burden (PBT/EBIT)	95.0	93.2	92.5	98.8	98.9
EBIT margin (EBIT/Revenue)	2.4	1.4	3.5	4.2	5.8
Asset turnover (Rev./Avg TA)	264.3	210.5	238.3	256.9	277.3
Leverage (Avg TA/Avg Equity)	2.5	2.8	2.8	2.6	2.2
Adjusted ROAE	10.5	5.9	16.2	20.2	26.5

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(9.9)	(6.0)	25.3	14.0	15.8
EBITDA	4.6	(15.2)	80.3	24.5	42.1
Adjusted EPS	(35.9)	(40.4)	200.9	45.5	61.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	4.6	4.1	5.9	6.5	7.9
EBIT margin	2.4	1.4	3.5	4.2	5.8
Adjusted profit margin	1.6	1.0	2.4	3.1	4.3
Adjusted ROAE	10.5	5.9	16.2	20.2	26.5
ROCE	13.9	6.1	19.2	25.8	34.0
<b>Working capital days (days)</b>					
Receivables	55	54	54	55	55
Inventory	0	0	0	0	0
Payables	65	86	86	80	60
<b>Ratios (x)</b>					
Gross asset turnover	22.5	9.5	9.5	8.8	8.4
Current ratio	1.3	1.3	1.2	1.3	1.6
Net interest coverage ratio	11.2	8.2	10.6	37.5	50.4
Adjusted debt/equity	0.4	0.5	0.1	0.0	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**HOLD**

TP: Rs 431 | ▲ 8%

**TRANSPORT CORP OF INDIA**

| Logistics

| 15 July 2021

## Post result rally leaves limited room for upside

- TRPC offers exposure to diverse logistics services and end-use industries where we expect swift recovery, supporting earnings growth
- Stock rally of 31% post FY21 results prices in this earnings recovery. Discount to peer valuations due to higher capital intensity to continue
- Downgrade from BUY to HOLD and raise TP to Rs 431 (vs. Rs 320) driven by an 8-13% increase in FY22-FY23 EPS estimates

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**Multi-service logistics player:** TRPC offers varied logistics services and has exposure to diverse industries. The company plans to develop cold chain and liquid management businesses as well. On the flip side, providing a wide range of services entails higher capital intensity (net working capital+capex to sales ratio) compared to peers such as TCIEXP and MAHLOG (albeit lower than CCRI).

**Steady growth in net income:** We expect TRPC's net income to grow steadily with faster growth in the freight division – which is a combination of full truck load (FTL) and less-than-truck load (LTL) – and a steady supply chain business. The seaway division may see some headwinds from reduction in capacity due to the sale of one of its ships and delays in replacing it due to the high cost of second-hand ships. We are projecting an FY21-FY23 EPS CAGR of 14%.

**Close to peak valuation vs. history but at discount to peers due to asset-heavy model:** TRPC is trading close to its two-year peak forward P/E and P/B multiples. The stock is implying 10-year FCF growth of ~20% based on a reverse DCF analysis carrying a terminal growth estimate of 5%. This is lower than the 15% EBITDA growth reported by the company during FY16-FY20 after divestment of TCIEXP. Higher capex intensity and lower growth have resulted in a valuation discount compared to asset-light peers such as TCIEXP and MAHLOG.

**Downgrade to HOLD:** We downgrade TRPC from BUY to HOLD as the recent stock rally prices in our growth expectations. Our new Jun'22 DCF-based TP of Rs 431 (Rs 320 earlier) implies an FY23E P/E of 16.0x and P/B of 2.2x, a premium of 21% and 9% respectively to the five-year mean. We raise our FY22/FY23 EPS estimates by 8%/13% to build in higher margin assumptions following the FY21 result beat. Below-estimated earnings growth will be a key near-term downside driver for the stock whereas upside drivers include robust growth in manufacturing indicators in addition to strong results.

## Key changes

Target	Rating
▲	▼

Ticker/Price	TRPC IN/Rs 400
Market cap	US\$ 413.6mn
Free float	33%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 510/Rs 162
Promoter/FPI/DII	67%/2%/11%

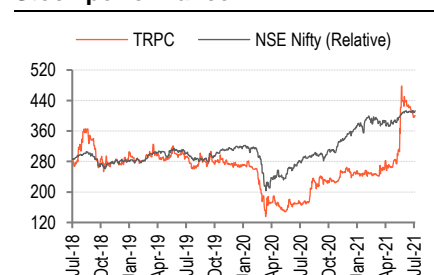
Source: NSE | Price as of 14 Jul 2021

## Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	28,024	30,021	33,563
EBITDA (Rs mn)	2,612	2,911	3,344
Adj. net profit (Rs mn)	1,602	1,685	2,077
Adj. EPS (Rs)	20.8	21.9	26.9
Consensus EPS (Rs)	0.0	25.1	30.3
Adj. ROAE (%)	14.6	13.5	14.6
Adj. P/E (x)	19.3	18.3	14.8
EV/EBITDA (x)	13.2	11.5	9.7
Adj. EPS growth (%)	4.8	5.2	23.3

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE

## Valuation methodology

Despite the drop in revenue due to the second pandemic wave, we build in higher margin assumptions in the wake of outperformance in FY21 and thus increase our FY22/FY23 EPS estimates by 8%/13%. We are 13%/11% below consensus owing to lower revenue growth assumptions.

**Fig 1 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	30.0	33.6	30.7	34.3	(2.3)	(2.1)
EBITDA	2.9	3.3	2.9	3.3	2.1	1.2
EBIT	1.9	2.3	1.8	2.2	1.8	3.3
Pretax Income	2.2	2.7	1.7	2.1	24.4	25.0
Net Income	1.7	2.1	1.6	1.8	8.6	13.3
EPS (Rs/sh)	21.9	26.9	20.2	23.9	8.3	12.9

Source: BOBCAPS Research

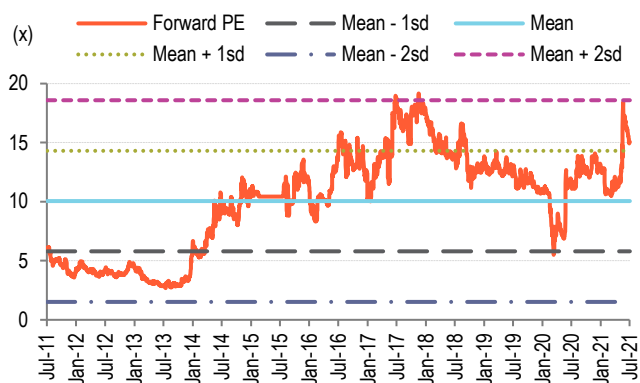
**Fig 2 – Estimates vs. Consensus**

(Rs bn)	BOBCAPS		Consensus		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	30.0	33.6	31.9	36.7	(5.8)	(8.6)
EBITDA	2.9	3.3	3.1	3.6	(5.4)	(8.2)
EBIT	1.9	2.3	2.1	2.6	(12.3)	(11.4)
Pretax Income	2.2	2.7	2.1	2.5	4.1	6.9
Net Income	1.7	2.1	2.0	2.4	(14.5)	(12.6)
EPS	21.9	26.9	25.1	30.3	(12.8)	(11.0)

Source: BOBCAPS Research, Bloomberg

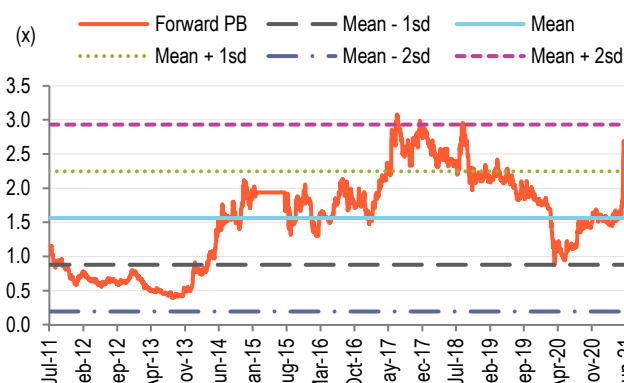
TRPC is trading close to its peak two-year forward P/E and P/B multiples following a 31% rally since the FY21 results. The stock is implying 10-year FCF growth of ~20% based on a reverse DCF analysis carrying a terminal growth estimate of 5%. This is lower than the 15% EBITDA growth reported by the company during FY16-FY20 after TCIEXP divestment.

**Fig 3 – P/E close to peak**



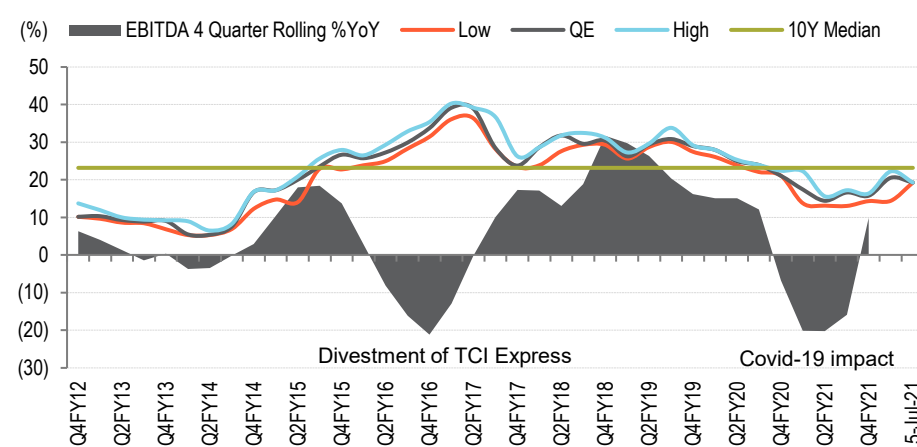
Source: Bloomberg

**Fig 4 – P/B close to peak**



Source: Bloomberg

**Fig 5 – Stock price-implied FCF growth vs. actual EBITDA growth**



Source: Bloomberg, BOBCAPS Research

In our view, the recent rally prices in growth expectations, leading us to downgrade TRPC from BUY to HOLD. Our new Jun'22 TP of Rs 431 (Rs 320 earlier) implies an FY23E P/E of 16.0x and P/B of 2.2x, a premium of 21% and 9% respectively to the five-year mean.

We have valued the company based on a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate is based on the risk-free rate as on end Jun'21, gearing and estimated beta as on end Jun'21 (based on two-year weekly returns). We have shifted to DCF from a target P/E-based valuation as this method offers the advantage of assessing the company's capital usage (working capital & capex) and capital structure, besides earnings.

**Fig 6 – DCF assumptions**

Variable	Assumption	Basis
Risk Free Rate (%) (A)	6.0	Indian 10-year TB yield as of end-Jun'21
Equity Risk Premium (%) (B)	6.9	NYU Stern India equity risk premium
Beta (C)	0.9	Weekly returns over 2 years as of end-Jun'21
Cost of Equity (%) (D) = A + B x C	12.2	
Cost of Debt (E)	8.5	
Marginal Tax Rate (%) (F)	25.2	
Post-Tax Cost of Debt (%) (G) = E x (1-F)	6.36	
Current Debt to Equity (2021) (H)	0.12	
WACC (I) = (1 x D + H x G)/(1 + H)	11.6	
	<b>Stage 1</b>	<b>Stage 2</b> <b>Stage 3 (Terminal)</b>
FCF CAGR (%)	38.3	15.0      5.0

Source: BOBCAPS Research

**Fig 7 – Target price: Implied multiples**

Multiples (x)	Target Price	Current Price	Consensus 12M forward 5Y mean	Consensus 5Y range	Variance vs. TRPC 5Y historical mean (%)
P/E FY23E	16.0	15.6	13.2	5.5-19.2	21.2
EV/EBITDA FY23E	10.0	9.8	8.4	4.6-12	18.8
P/B FY23E	2.2	2.1	2.0	0.9-3.1	8.9

Source: Bloomberg, BOBCAPS Research

## Key risks

- Key downside risks to our estimates include weaker-than-expected recovery, lower margins and slow sign-up of new customers.
- Key upside risks include faster-than-estimated recovery, addition of new customers in the SCM business and rapid growth in new businesses.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>27,178</b>	<b>28,024</b>	<b>30,021</b>	<b>33,563</b>	<b>38,391</b>
EBITDA	2,405	2,612	2,911	3,344	4,534
Depreciation	(825)	(928)	(1,043)	(1,084)	(1,113)
EBIT	1,580	1,684	1,868	2,261	3,420
Net interest inc./(exp.)	(323)	(251)	(167)	(108)	(29)
Other inc./(exp.)	181	238	238	238	238
Exceptional items	(99)	(131)	0	0	0
EBT	1,591	1,743	2,173	2,679	4,067
Income taxes	(159)	(238)	(488)	(602)	(914)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	243	168	234	288	437
<b>Reported net profit</b>	<b>1,424</b>	<b>1,471</b>	<b>1,685</b>	<b>2,077</b>	<b>3,153</b>
Adjustments	99	131	0	0	0
<b>Adjusted net profit</b>	<b>1,522</b>	<b>1,602</b>	<b>1,685</b>	<b>2,077</b>	<b>3,153</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	639	759	814	909	1,040
Other current liabilities	741	845	899	995	1,126
Provisions	0	0	0	0	0
Debt funds	3,686	2,347	1,569	858	0
Other liabilities	409	496	496	496	496
Equity capital	154	154	154	154	154
Reserves & surplus	10,085	11,543	13,119	15,053	18,030
Shareholders' fund	10,239	11,697	13,273	15,207	18,184
<b>Total liab. and equities</b>	<b>16,833</b>	<b>17,388</b>	<b>18,240</b>	<b>19,560</b>	<b>21,809</b>
Cash and cash eq.	259	395	300	336	902
Accounts receivables	4,873	5,110	5,475	6,120	7,001
Inventories	66	71	76	85	98
Other current assets	1,877	1,660	1,660	1,660	1,660
Investments	1,353	1,500	1,500	1,500	1,500
Net fixed assets	7,479	7,378	7,800	8,232	8,698
CWIP	0	0	0	0	0
Intangible assets	4	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	922	1,274	1,429	1,626	1,951
<b>Total assets</b>	<b>16,833</b>	<b>17,388</b>	<b>18,240</b>	<b>19,560</b>	<b>21,809</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,428</b>	<b>3,047</b>	<b>2,108</b>	<b>2,183</b>	<b>2,858</b>
Capital expenditures	(1,336)	(1,553)	(1,465)	(1,516)	(1,579)
Change in investments	0	0	0	0	0
Other investing cash flows	(134)	334	0	0	0
<b>Cash flow from investing</b>	<b>(1,470)</b>	<b>(1,219)</b>	<b>(1,465)</b>	<b>(1,516)</b>	<b>(1,579)</b>
Equities issued/Others	24	40	0	0	0
Debt raised/repaid	(517)	(1,419)	(778)	(710)	(858)
Interest expenses	(343)	(269)	54	115	179
Dividends paid	(201)	(96)	(109)	(143)	(176)
Other financing cash flows	1,032	1,711	833	739	856
<b>Cash flow from financing</b>	<b>(6)</b>	<b>(33)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>31</b>	<b>209</b>	<b>(95)</b>	<b>35</b>	<b>566</b>
<b>Closing cash &amp; cash eq.</b>	<b>259</b>	<b>395</b>	<b>300</b>	<b>336</b>	<b>902</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	18.5	19.1	21.9	26.9	40.9
Adjusted EPS	19.8	20.8	21.9	26.9	40.9
Dividend per share	2.0	2.5	3.3	4.0	6.1
Book value per share	133.3	151.7	172.2	197.2	235.9

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.3	1.2	1.1	1.0	0.8
EV/EBITDA	14.4	13.2	11.5	9.7	7.0
Adjusted P/E	20.2	19.3	18.3	14.8	9.8
P/BV	3.0	2.6	2.3	2.0	1.7

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	90.1	85.5	77.5	77.5	77.5
Interest burden (PBT/EBIT)	106.9	111.2	116.3	118.5	118.9
EBIT margin (EBIT/Revenue)	5.8	6.0	6.2	6.7	8.9
Asset turnover (Rev./Avg TA)	164.8	163.8	168.5	177.6	185.6
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.4	1.3	1.2
Adjusted ROAE	15.9	14.6	13.5	14.6	18.9

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(1.3)	3.1	7.1	11.8	14.4
EBITDA	(0.6)	8.6	11.4	14.9	35.6
Adjusted EPS	6.0	4.8	5.2	23.3	51.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.9	9.3	9.7	10.0	11.8
EBIT margin	5.8	6.0	6.2	6.7	8.9
Adjusted profit margin	5.6	5.7	5.6	6.2	8.2
Adjusted ROAE	15.9	14.6	13.5	14.6	18.9
ROCE	13.5	13.3	13.4	14.8	19.7
<b>Working capital days (days)</b>					
Receivables	65	67	67	67	67
Inventory	1	1	1	1	1
Payables	9	10	10	10	10
<b>Ratios (x)</b>					
Gross asset turnover	2.7	2.5	2.3	2.3	2.4
Current ratio	1.5	1.8	2.0	2.4	3.1
Net interest coverage ratio	4.9	6.7	11.2	21.0	118.7
Adjusted debt/equity	0.4	0.2	0.1	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**HOLD**  
 TP: Rs 1,421 | ▼ 4%

**TCI EXPRESS**

| Logistics

| 15 July 2021

**Strong recovery priced in**

- Expect TCIEXP to clock robust 18% volume CAGR over FY21-FY23 as economic growth gathers pace and organised logistics players gain share
- 35% rally in stock price post FY21 results already prices in expected strong earnings growth, in our view
- Downgrade from BUY to HOLD given limited upside. Our new DCF TP of Rs 1,421 (vs. Rs 1,140) implies 35x FY23E P/E, 24% premium to mean

Tarun Bhatnagar | Someel Shah  
 researchreport@bobcaps.in

**Structural growth with a simple business model:** TCIEXP is a key play on economic growth and the rising share of organised logistics in India. The company follows a simple asset-light model where volumes and efficiency are the key drivers of business. Volumes are diversified by industry and customers and will continue to grow as economic activity picks up and the sector becomes more formalised. Efficiency will be driven by the company’s endeavour to maximise utilisation and costs. TCIEXP demonstrated its efficiency in FY21 by growing EPS at over 10% despite a double-digit drop in volumes.

**Volumes and efficiency to drive earnings:** We expect 20% volume growth in FY22. Strong growth is also forecast to buoy operating margin (+80bps to 15.7%) as the company has rationalised its cost structure during FY21 and will derive efficiency benefits from a new sorting centre. Consequently, we raise FY22/FY23 EPS estimates by 7%/8%, putting us at par with consensus, and continue to expect robust +30% YoY PAT growth in FY22 driven by a low base effect in H1FY22, recovery in demand for consumer products from H2 and inventory build-up in the manufacturing industry.

**Trading at peak multiples:** Following a 35% rally in stock price post the FY21 results, TCIEXP is trading close to its two-year peak forward P/E and P/B multiples. The stock is implying 10-year FCF growth of ~30% based on a reverse DCF analysis with a terminal growth estimate of 5%. While we believe the company can register strong growth over the next two years, this will stem mainly from volume recovery post pandemic and we expect growth in subsequent years to normalise.

**Downgrade to HOLD:** We downgrade TCIEXP from BUY to HOLD as the recent stock rally prices in the high growth expectations. Our new Jun’22 DCF-based TP of Rs 1,421 (Rs 1,140 earlier) implies an FY23E P/E of 35x and P/B of 7.8x, a premium of 24% and 16% respectively to the two-year mean. Below-estimated earnings growth will be a key near-term downside driver for the stock whereas upside drivers include robust growth in manufacturing indicators in addition to strong results.

**Key changes**

Target	Rating
▲	▼

Ticker/Price	TCIEXP IN/Rs 1,475
Market cap	US\$ 758.7mn
Free float	33%
3M ADV	US\$ 2.7mn
52wk high/low	Rs 1,624/Rs 650
Promoter/FPI/DII	67%/2%/10%

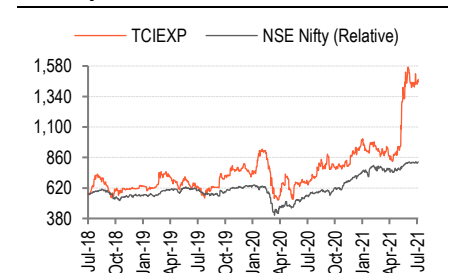
Source: NSE | Price as of 14 Jul 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	8,440	10,634	12,596
EBITDA (Rs mn)	1,343	1,791	2,175
Adj. net profit (Rs mn)	1,006	1,306	1,581
Adj. EPS (Rs)	26.2	34.0	41.2
Consensus EPS (Rs)	0.0	34.0	40.7
Adj. ROAE (%)	26.1	26.4	25.1
Adj. P/E (x)	56.3	43.4	35.8
EV/EBITDA (x)	41.9	31.3	25.5
Adj. EPS growth (%)	12.9	29.8	21.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## Valuation methodology

We raise our FY22/FY23 EPS estimates by 7%/8% which stems from a combination of higher margin assumptions to account for the recent improvement in efficiency shown by the company and lower revenue estimates to account for the loss in volume due to the second wave of Covid-19. We remain above consensus EPS.

**Fig 1 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	10.6	12.6	10.6	12.3	0.4	2.2
EBITDA	1.8	2.2	1.7	2.0	8.0	9.6
EBIT	1.7	2.0	1.6	1.9	7.4	9.1
Pretax Income	1.7	2.1	1.6	1.9	7.2	8.6
Net Income	1.3	1.6	1.2	1.5	7.0	8.3
EPS (Rs/sh)	34.0	41.2	31.8	38.1	6.8	8.1

Source: BOBCAPS Research

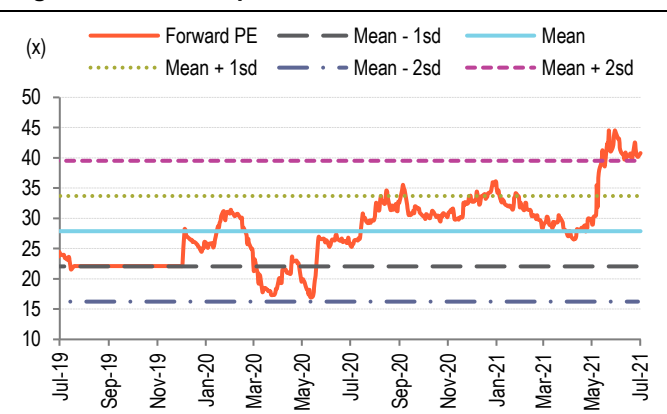
**Fig 2 – Estimates vs. Consensus**

(Rs bn)	BOBCAPS		Consensus		Difference (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	10.6	12.6	11.1	12.9	(4.4)	(2.2)
EBITDA	1.8	2.2	1.8	2.2	(0.7)	0.6
EBIT	1.7	2.0	1.6	1.9	2.8	5.4
Pretax Income	1.7	2.1	1.7	2.1	2.8	2.6
Net Income	1.3	1.6	1.3	1.5	1.9	2.9
EPS	34.0	41.2	34.0	40.7	0.1	1.1

Source: BOBCAPS Research, Bloomberg

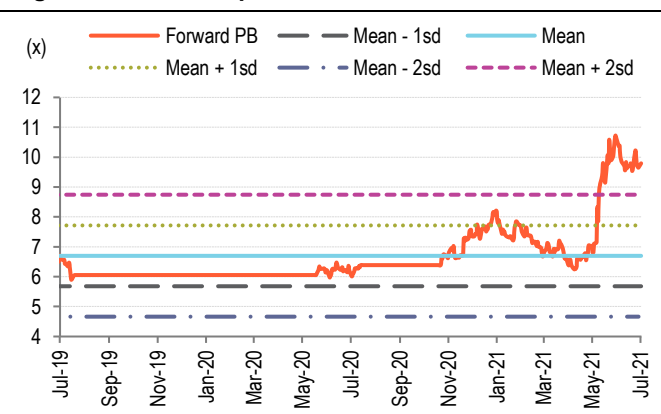
Following a 35% rally in stock price after the FY21 results, TCIEXP is trading close to its peak two-year forward P/E and P/B multiples. The stock is implying 10-year FCF growth of ~30% based on a reverse DCF analysis with a terminal growth estimate of 5% – in line with the median and also following the EBITDA growth trajectory.

**Fig 3 – P/E close to peak**

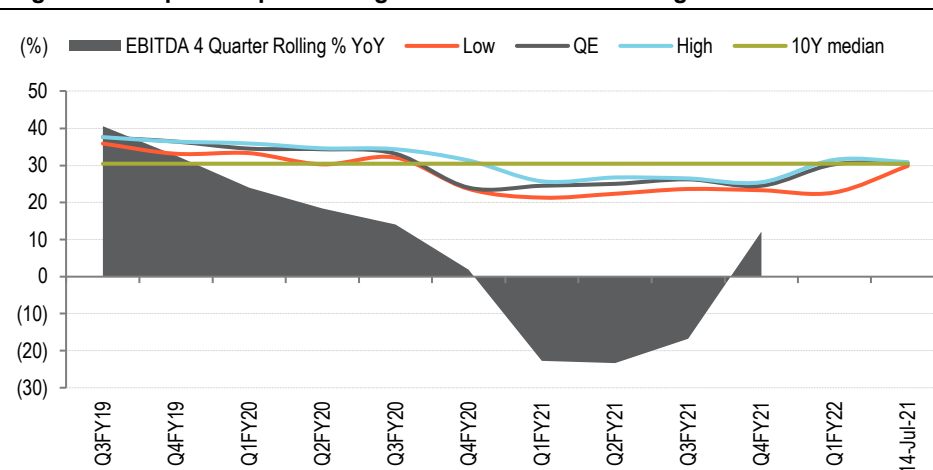


Source: Bloomberg

**Fig 4 – P/B close to peak**



Source: Bloomberg

**Fig 5 – Stock price-implied FCF growth vs. actual EBITDA growth**

Source: Bloomberg, BOBCAPS Research

While we believe TCIEXP can register stronger growth in the next two years, this will be mainly due to volume recovery post pandemic and we expect growth in subsequent years to normalise. In our view, the recent rally prices in the high growth expectations – we thus downgrade the stock from BUY to HOLD. Our new Jun'22 TP of Rs 1,421 (Rs 1,140 earlier) implies an FY23E P/E of 35x and P/B of 7.8x, a premium of 24% and 16% respectively to the mean since listing.

We have valued the company based on a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate is based on the risk-free rate as of end Jun'21, gearing and estimated beta as of end Jun'21 (based on two-year weekly returns). We have shifted to DCF from a target P/E-based valuation as this method offers the advantage of assessing the company's capital usage (working capital & capex) and capital structure, besides earnings.

**Fig 6 – DCF assumptions**

Variable	Assumption	Basis
Risk Free Rate (%) (A)	6.0	Indian 10-year TB yield as of end-Jun'21
Equity Risk Premium (%) (B)	6.9	NYU Stern India equity risk premium
Beta (C)	1.0	Weekly returns over 2 years as of end-Jun'21
Cost of Equity (%) (D) = A + B x C	12.6	
Cost of Debt (E)	9.0	
Marginal Tax Rate (%) (F)	25.2	
Post-Tax Cost of Debt (%) (G) = E x (1-F)	6.73	
Current Debt to Equity (2021) (H)	0.00	
WACC (I) = (1 x D + H x G)/(1 + H)	13.0	
	<b>Stage 1</b>	<b>Stage 2</b>
FCF CAGR (%)	63.5	30.0
		<b>Stage 3 (Terminal)</b>
		5.0

Source: BOBCAPS Research

**Fig 7 – Target price: Implied multiples**

Multiples (x)	Target Price	Current Price	Consensus 12M forward 2Y mean	Consensus 2Y range	Variance vs. TCIEXP 2Y historical mean (%)
P/E FY23E	34.5	35.8	27.9	17.0 - 44.6	24.0
EV/EBITDA FY23E	23.8	24.8	NA	NA	NA
P/B FY23E	7.8	8.1	6.7	5.9 - 10.7	16.0

Source: Bloomberg, BOBCAPS Research

### Key risks

- Key upside risks to our estimates include faster-than-expected earnings growth from higher volumes, price increases or efficiency gains.
- Key downside risks include a drop in earnings due to lower volume growth, change in regulations related to the use of commercial vehicles, higher competition in the organised sector and a shift to rail following completion of the DFC.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>10,320</b>	<b>8,440</b>	<b>10,634</b>	<b>12,596</b>	<b>14,920</b>
EBITDA	1,213	1,343	1,791	2,175	2,639
Depreciation	(78)	(90)	(125)	(150)	(161)
EBIT	1,135	1,254	1,666	2,025	2,478
Net interest inc./(exp.)	(9)	(8)	4	11	21
Other inc./(exp.)	44	77	77	77	77
Exceptional items	0	0	0	0	0
EBT	1,170	1,322	1,746	2,113	2,576
Income taxes	(279)	(316)	(439)	(532)	(648)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>891</b>	<b>1,006</b>	<b>1,306</b>	<b>1,581</b>	<b>1,927</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>891</b>	<b>1,006</b>	<b>1,306</b>	<b>1,581</b>	<b>1,927</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	673	752	947	1,035	1,226
Other current liabilities	720	795	990	1,078	1,269
Provisions	0	0	0	0	0
Debt funds	28	10	0	0	0
Other liabilities	42	55	55	55	55
Equity capital	77	77	77	77	77
Reserves & surplus	3,296	4,262	5,491	6,942	8,711
Shareholders' fund	3,373	4,339	5,568	7,019	8,788
<b>Total liab. and equities</b>	<b>4,315</b>	<b>5,437</b>	<b>6,851</b>	<b>8,390</b>	<b>10,350</b>
Cash and cash eq.	412	859	1,404	2,584	3,704
Accounts receivables	1,658	1,695	2,039	1,898	2,248
Inventories	0	0	0	0	0
Other current assets	152	175	175	175	175
Investments	9	10	10	10	10
Net fixed assets	1,816	2,244	2,769	3,269	3,758
CWIP	0	0	0	0	0
Intangible assets	22	18	18	18	18
Deferred tax assets, net	0	0	0	0	0
Other assets	247	436	436	436	437
<b>Total assets</b>	<b>4,315</b>	<b>5,437</b>	<b>6,851</b>	<b>8,390</b>	<b>10,350</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>816</b>	<b>1,189</b>	<b>1,202</b>	<b>1,873</b>	<b>1,831</b>
Capital expenditures	(190)	(568)	(650)	(650)	(650)
Change in investments	0	0	0	0	0
Other investing cash flows	(412)	(424)	0	0	0
<b>Cash flow from investing</b>	<b>(602)</b>	<b>(992)</b>	<b>(650)</b>	<b>(650)</b>	<b>(650)</b>
Equities issued/Others	23	22	0	0	0
Debt raised/repaid	(59)	(20)	(10)	0	0
Interest expenses	0	0	69	68	66
Dividends paid	(213)	(77)	(77)	(131)	(158)
Other financing cash flows	239	67	18	63	92
<b>Cash flow from financing</b>	<b>(9)</b>	<b>(8)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(36)</b>	<b>146</b>	<b>545</b>	<b>1,180</b>	<b>1,121</b>
<b>Closing cash &amp; cash eq.</b>	<b>412</b>	<b>859</b>	<b>1,404</b>	<b>2,584</b>	<b>3,704</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	23.2	26.2	34.0	41.2	50.2
Adjusted EPS	23.2	26.2	34.0	41.2	50.2
Dividend per share	4.0	4.0	6.8	8.2	10.0
Book value per share	87.9	113.1	145.2	183.0	229.1

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	5.5	6.7	5.3	4.4	3.7
EV/EBITDA	46.7	41.9	31.3	25.5	20.7
Adjusted P/E	63.6	56.3	43.4	35.8	29.4
P/BV	16.8	13.0	10.2	8.1	6.4

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	76.1	76.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	103.1	105.5	104.8	104.3	103.9
EBIT margin (EBIT/Revenue)	11.0	14.9	15.7	16.1	16.6
Asset turnover (Rev./Avg TA)	254.6	173.1	173.1	165.3	159.2
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.2	1.2	1.2
Adjusted ROAE	29.5	26.1	26.4	25.1	24.4

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	0.8	(18.2)	26.0	18.5	18.5
EBITDA	1.9	10.7	33.3	21.5	21.3
Adjusted EPS	22.1	12.9	29.8	21.1	21.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.8	15.9	16.8	17.3	17.7
EBIT margin	11.0	14.9	15.7	16.1	16.6
Adjusted profit margin	8.6	11.9	12.3	12.6	12.9
Adjusted ROAE	29.5	26.1	26.4	25.1	24.4
ROCE	36.7	32.0	33.2	31.9	31.1
<b>Working capital days (days)</b>					
Receivables	59	73	70	55	55
Inventory	0	0	0	0	0
Payables	24	33	33	30	30
<b>Ratios (x)</b>					
Gross asset turnover	5.1	3.6	3.6	3.5	3.5
Current ratio	2.5	2.6	2.9	3.5	4.1
Net interest coverage ratio	127.5	160.7	(469.1)	(179.5)	(117.0)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**

TP: Rs 381 | ▲ 21%

**VRL LOGISTICS**

| Logistics

| 15 July 2021

**Earnings growth to rebound – retain BUY**

- VRL to benefit from anticipated swift recovery in LTL business following removal of Covid-19 restrictions
- Asset-heavy model faces inherent challenges but high-cost structure would enjoy better operating leverage in recovery cycle
- Retain BUY and raise TP to Rs 381 (vs. Rs 285), implying 25.3x FY23E P/E – 23% premium to 2Y mean justified by expected earnings revival

**Tarun Bhatnagar | Someel Shah**  
 researchreport@bobcaps.in

**LTL segment likely to stage speedy recovery:** VRL is a beneficiary of the rising share of organised logistics in the less-than-truckload (LTL) market in India. We expect volume improvement as Covid restrictions ease (+10% in FY22E), aiding higher gross margins and operating leverage. While the company's asset-heavy model faces operational challenges in a low-demand environment, it conversely benefits from higher operational leverage when volumes recover, aiding stronger earnings growth than asset-light peers. We model for a buoyant +70% earnings CAGR over FY21-FY23E.

**Bus segment losses remain a concern:** Covid-19 has impacted the bus division's revenue significantly given that fewer people are willing to travel and there are limits on the passengers carried per trip. Volumes are likely to remain weak, resulting in continued losses in the segment.

**Trading at discount to peers:** VRL is trading close to its two-year peak forward P/E and P/B multiples. However, valuations have fallen steadily over the last two years due to declining earnings and remain at a discount to peers. Based on our reverse DCF analysis with a terminal growth estimate of 5%, the stock is implying 10-year FCF growth of just ~5% which is lower than the historical mean.

**Retain BUY:** We trim our FY22 EPS estimate by 3% to account for the Covid-19 impact while raising our FY23 forecast 17% given the expected sharp earnings revival. Our Jun'22 DCF-based TP stands revised to Rs 381 (vs. Rs 285), implying an FY23E P/E of 25.3x – a 23% premium to the two-year mean. With growth expected to accelerate in FY22-FY23, we believe the above-mean valuation is justified and maintain our BUY rating. Downside drivers for the stock include below-estimated earnings growth and continued losses from the bus division.

**Key changes**

Target	Rating
▲	◀ ▶

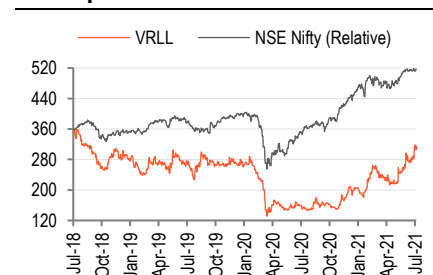
Ticker/Price	VRL IN/Rs 316
Market cap	US\$ 374.0mn
Free float	30%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 322/Rs 144
Promoter/FPI/DII	70%/3%/19%

Source: NSE | Price as of 14 Jul 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	17,629	21,886	25,251
EBITDA (Rs mn)	2,475	3,192	3,762
Adj. net profit (Rs mn)	451	948	1,328
Adj. EPS (Rs)	5.1	10.7	15.0
Consensus EPS (Rs)	0.0	9.1	13.1
Adj. ROAE (%)	7.4	14.7	17.5
Adj. P/E (x)	61.9	29.4	21.0
EV/EBITDA (x)	12.4	10.0	8.2
Adj. EPS growth (%)	(48.9)	110.2	40.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE

### Valuation methodology

We lower our FY22 EPS estimate for VRL by 3% to account for the Covid-19 impact but hike our FY23 forecast 17% as we expect a sharp recovery. Note that our FY22 revenue upgrade is on account of higher diesel prices which will lead to stronger pricing for the company as it passes on a large portion of the cost hike to customers. Our EPS forecasts are 18%/15% ahead of consensus.

**Fig 1 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	21.9	25.3	20.9	23.0	4.8	9.8
EBITDA	3.2	3.8	3.3	3.6	(3.0)	3.4
EBIT	1.5	2.0	1.6	1.8	(3.7)	11.6
Pretax Income	1.3	1.8	1.3	1.5	(3.7)	16.9
Net Income	0.9	1.3	1.0	1.1	(3.3)	16.6
EPS (Rs/sh)	10.7	15.0	11.1	12.9	(3.3)	16.6

Source: BOBCAPS Research

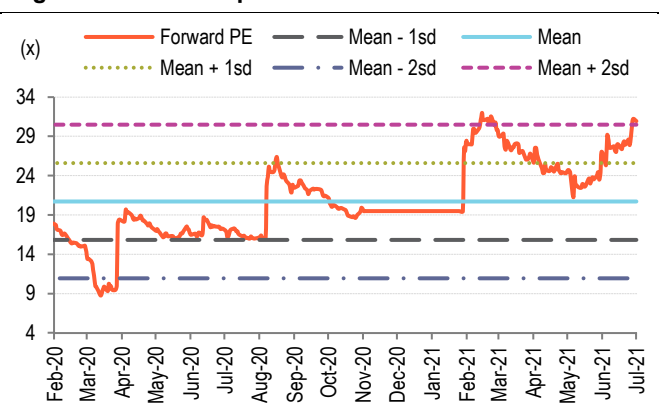
**Fig 2 – Estimates vs. Consensus**

(Rs bn)	BOBCAPS		Consensus		Difference (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	21.9	25.3	21.7	26.0	1.0	(2.8)
EBITDA	3.2	3.8	3.1	3.7	2.9	1.2
EBIT	1.5	2.0	1.0	1.8	45.6	10.6
Pretax Income	1.3	1.8	0.7	1.5	75.9	22.4
Net Income	0.9	1.3	0.8	1.2	15.9	13.8
EPS	10.7	15.0	9.1	13.1	17.9	15.2

Source: BOBCAPS Research, Bloomberg

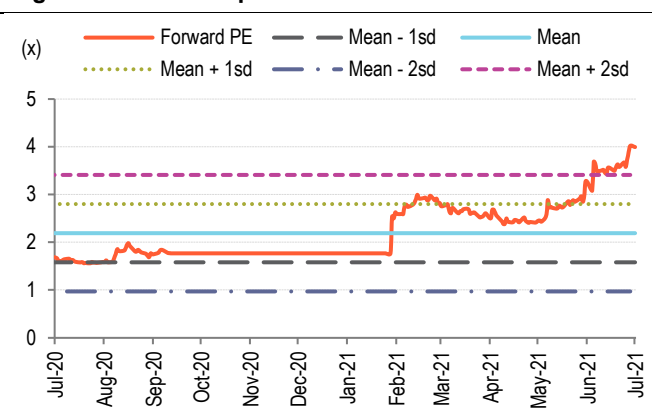
VRL is trading close to its peak two-year forward P/E and P/B multiples. However, valuations have fallen steadily over the last two years due to declining earnings and remain at a discount to peers. Based on our reverse DCF analysis with a terminal growth estimate of 5%, the stock is implying 10-year FCF growth of just ~5%. This could be due to the fall in growth over the last two years as the company’s asset-heavy model worked against it amid the difficult Covid-19 demand climate.

**Fig 3 – P/E close to peak**



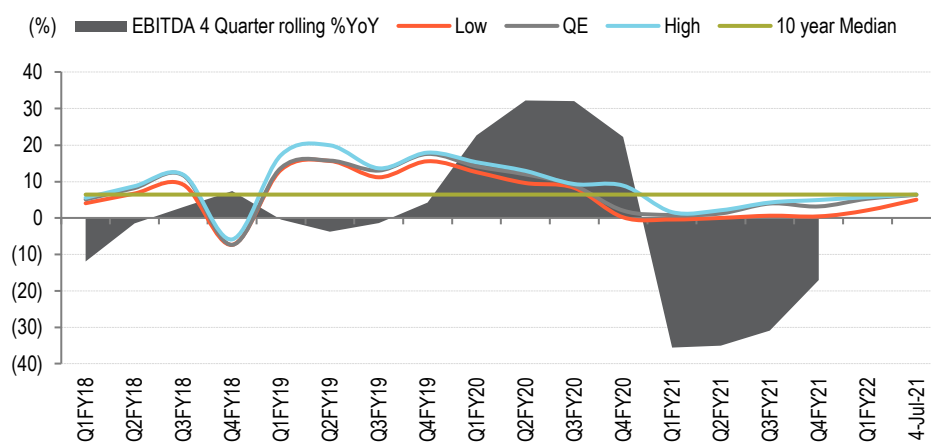
Source: Bloomberg

**Fig 4 – P/B close to peak**



Source: Bloomberg

**Fig 5 – Stock price-implied FCF growth vs. actual EBITDA growth**



Source: Bloomberg, BOBCAPS Research

Post estimate revision, we raise our Jun'22 DCF-based TP to Rs 381 (vs. Rs 285), which implies an FY23E P/E of 25.3x – a 23% premium to the historical mean. With growth expected to accelerate in FY22-FY23, we believe the above-mean valuation is justified and maintain our BUY rating.

We have valued the company using a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate is based on the risk-free rate as on end Jun'21, gearing and estimated beta as on end Jun'21 (based on two-year weekly returns). We shift to DCF from a target P/E-based valuation as this method offers the advantage of assessing capital usage (working capital & capex) and capital structure, besides earnings.

**Fig 6 – DCF assumptions**

Variable	Assumption	Basis	
Risk Free Rate (%) (A)	6.0	Indian 10-year TB yield as of end-Jun'21	
Equity Risk Premium (%) (B)	6.9	NYU Stem India equity risk premium	
Beta (C)	0.9	Weekly returns over 2 years as of end-Jun'21	
Cost of Equity (%) (D) = A + B x C	12.3		
Cost of Debt (E)	9.0		
Marginal Tax Rate (%) (F)	25.2		
Post-Tax Cost of Debt (%) (G) = E x (1F)	6.73		
Current Debt to Equity (2021) (H)	0.59		
WACC (I) = (1 x D + H x G)/(1 + H)	10.2		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3 (Terminal)</b>
FCF CAGR (%)	3.5	5.0	5.0

Source: BOBCAPS Research



**Fig 7 – Target price: Implied multiples**

Multiples (x)	Target price	Current price	Consensus 12M forward 2Y mean	Consensus 2Y range	Variance vs. VRL 2Y historical mean (%)
P/E FY23E	25.3	21.0	20.7	8.7 - 32	22.5
EV/EBITDA FY23E	8.8	7.3	NA	NA	NA
P/B FY23E	4.1	3.4	2.2	1.6 – 4.0	86.9

Source: Bloomberg, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- slower-than-expected recovery,
- continued losses from the bus segment, and
- drop in diesel cost or rise in biodiesel cost which could reduce the savings on fuel.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>21,185</b>	<b>17,629</b>	<b>21,886</b>	<b>25,251</b>	<b>27,507</b>
EBITDA	2,983	2,475	3,192	3,762	3,860
Depreciation	(1,675)	(1,598)	(1,678)	(1,749)	(1,810)
EBIT	1,307	877	1,514	2,013	2,051
Net interest inc./(exp.)	(367)	(368)	(377)	(366)	(276)
Other inc./(exp.)	103	129	129	129	129
Exceptional items	0	0	0	0	0
EBT	1,043	637	1,266	1,775	1,904
Income taxes	(142)	(187)	(319)	(447)	(479)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>901</b>	<b>451</b>	<b>948</b>	<b>1,328</b>	<b>1,424</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>901</b>	<b>451</b>	<b>948</b>	<b>1,328</b>	<b>1,424</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	35	135	167	193	210
Other current liabilities	174	260	292	318	335
Provisions	208	207	207	207	207
Debt funds	4,308	4,059	4,077	2,056	0
Other liabilities	796	701	701	701	701
Equity capital	903	883	883	883	883
Reserves & surplus	5,265	5,088	6,035	7,364	8,788
Shareholders' fund	6,169	5,971	6,919	8,247	9,672
<b>Total liab. and equities</b>	<b>12,252</b>	<b>11,986</b>	<b>12,983</b>	<b>12,317</b>	<b>11,703</b>
Cash and cash eq.	134	185	2,189	2,525	2,791
Accounts receivables	823	639	794	916	998
Inventories	293	395	491	566	617
Other current assets	565	543	543	543	543
Investments	1	1	1	1	1
Net fixed assets	9,871	9,513	8,257	7,056	6,044
CWIP	0	0	0	0	0
Intangible assets	8	6	6	6	6
Deferred tax assets, net	0	0	0	0	0
Other assets	557	703	703	703	703
<b>Total assets</b>	<b>12,252</b>	<b>11,986</b>	<b>12,983</b>	<b>12,317</b>	<b>11,703</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,573</b>	<b>2,711</b>	<b>2,656</b>	<b>3,143</b>	<b>3,266</b>
Capital expenditures	(1,227)	(390)	(422)	(548)	(797)
Change in investments	0	0	0	0	0
Other investing cash flows	42	75	0	0	0
<b>Cash flow from investing</b>	<b>(1,186)</b>	<b>(315)</b>	<b>(422)</b>	<b>(548)</b>	<b>(797)</b>
Equities issued/Others	0	(632)	0	0	0
Debt raised/repaid	(36)	(1,340)	18	(2,021)	(2,056)
Interest expenses	(368)	(372)	(248)	(237)	(147)
Dividends paid	(980)	0	0	0	0
Other financing cash flows	1,384	2,344	230	2,258	2,203
<b>Cash flow from financing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>3</b>	<b>54</b>	<b>2,004</b>	<b>336</b>	<b>266</b>
<b>Closing cash &amp; cash eq.</b>	<b>134</b>	<b>185</b>	<b>2,189</b>	<b>2,525</b>	<b>2,791</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	10.0	5.1	10.7	15.0	16.1
Adjusted EPS	10.0	5.1	10.7	15.0	16.1
Dividend per share	7.0	4.0	7.5	10.5	11.3
Book value per share	68.3	67.6	78.3	93.4	109.5

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.4	1.7	1.5	1.2	1.0
EV/EBITDA	9.6	12.4	10.0	8.2	7.4
Adjusted P/E	31.7	61.9	29.4	21.0	19.6
P/BV	4.6	4.7	4.0	3.4	2.9

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	86.4	70.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	79.8	72.7	83.6	88.2	92.8
EBIT margin (EBIT/Revenue)	6.2	5.0	6.9	8.0	7.5
Asset turnover (Rev./Avg TA)	192.3	145.5	175.3	199.6	229.0
Leverage (Avg TA/Avg Equity)	1.7	2.0	1.9	1.7	1.3
Adjusted ROAE	14.3	7.4	14.7	17.5	15.9

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	0.4	(16.8)	24.1	15.4	8.9
EBITDA	22.2	(17.0)	29.0	17.9	2.6
Adjusted EPS	(2.0)	(48.9)	110.2	40.2	7.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	14.1	14.0	14.6	14.9	14.0
EBIT margin	6.2	5.0	6.9	8.0	7.5
Adjusted profit margin	4.3	2.6	4.3	5.3	5.2
Adjusted ROAE	14.3	7.4	14.7	17.5	15.9
ROCE	14.3	9.2	15.5	19.6	19.9
<b>Working capital days (days)</b>					
Receivables	14	13	13	13	13
Inventory	5	8	8	8	8
Payables	1	3	3	3	3
<b>Ratios (x)</b>					
Gross asset turnover	3.5	1.4	1.7	1.9	2.0
Current ratio	0.7	0.7	1.5	2.2	3.7
Net interest coverage ratio	3.6	2.4	4.0	5.5	7.4
Adjusted debt/equity	0.7	0.7	0.6	0.2	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

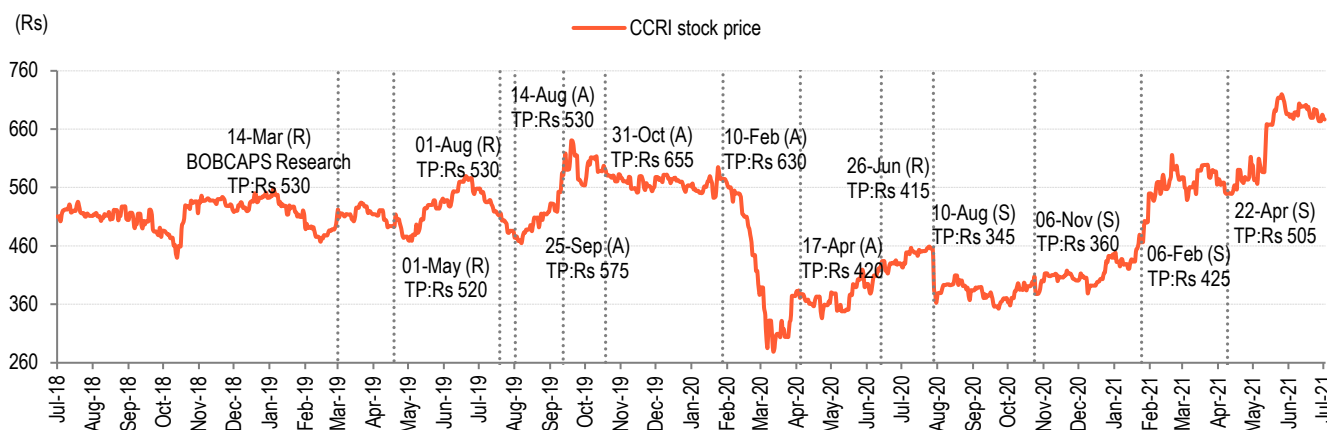
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

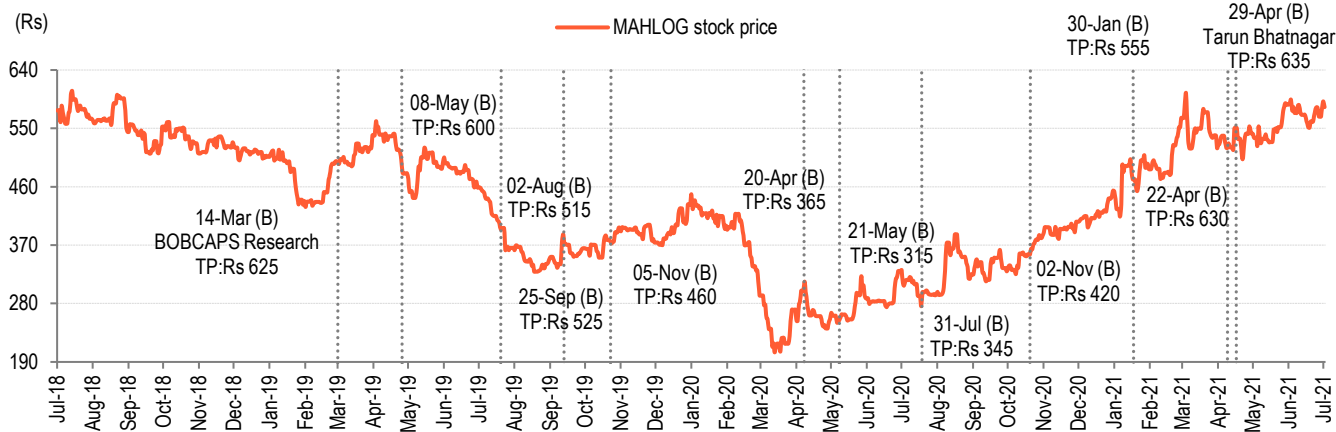
Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): CONTAINER CORP OF INDIA (CCRI IN)



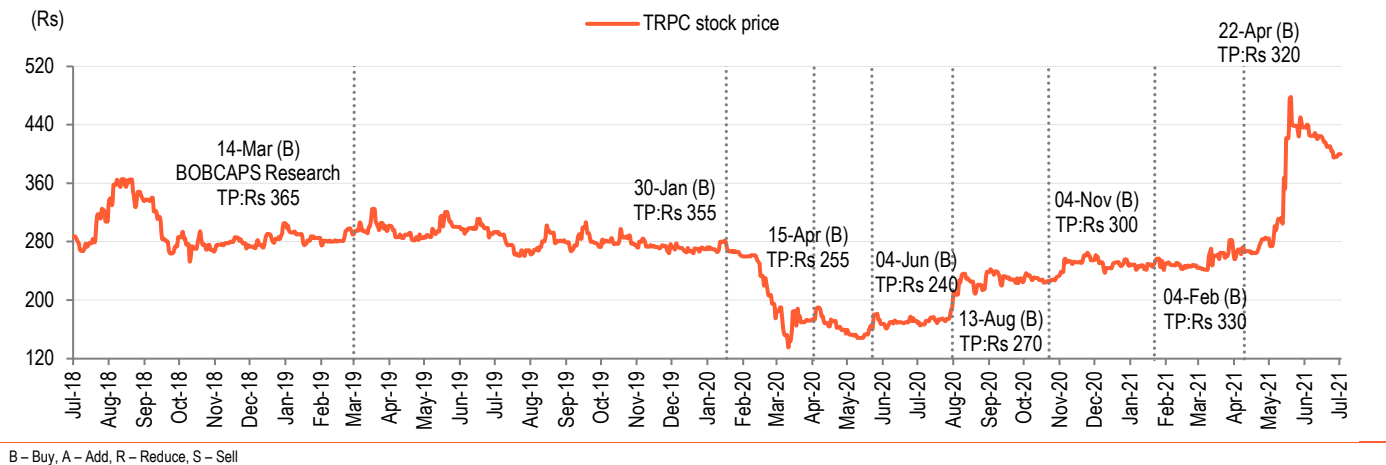
B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

### Ratings and Target Price (3-year history): MAHINDRA LOGISTICS (MAHLOG IN)

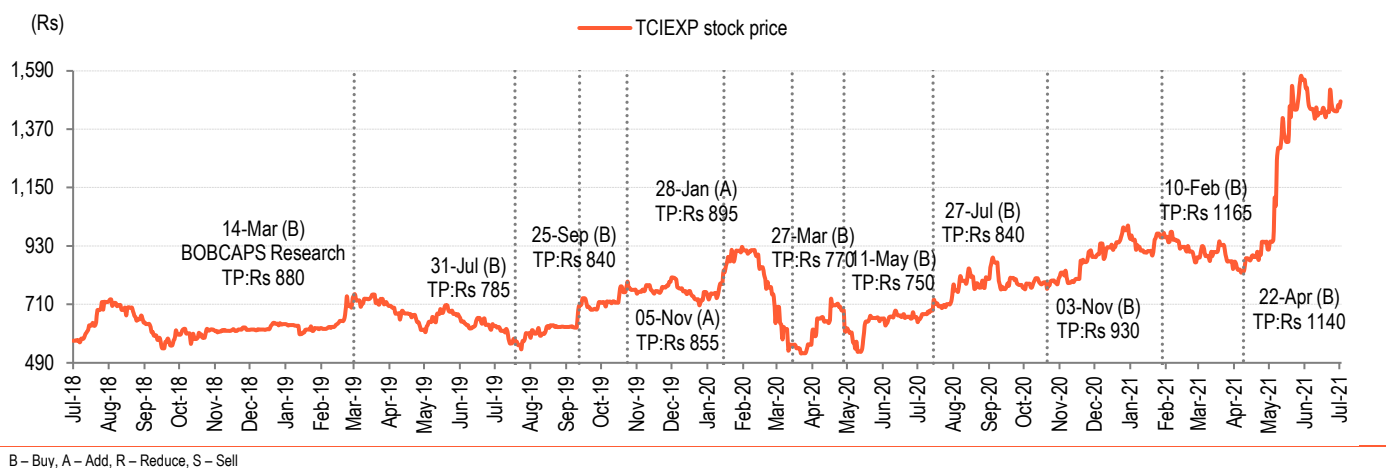


B – Buy, A – Add, R – Reduce, S – Sell

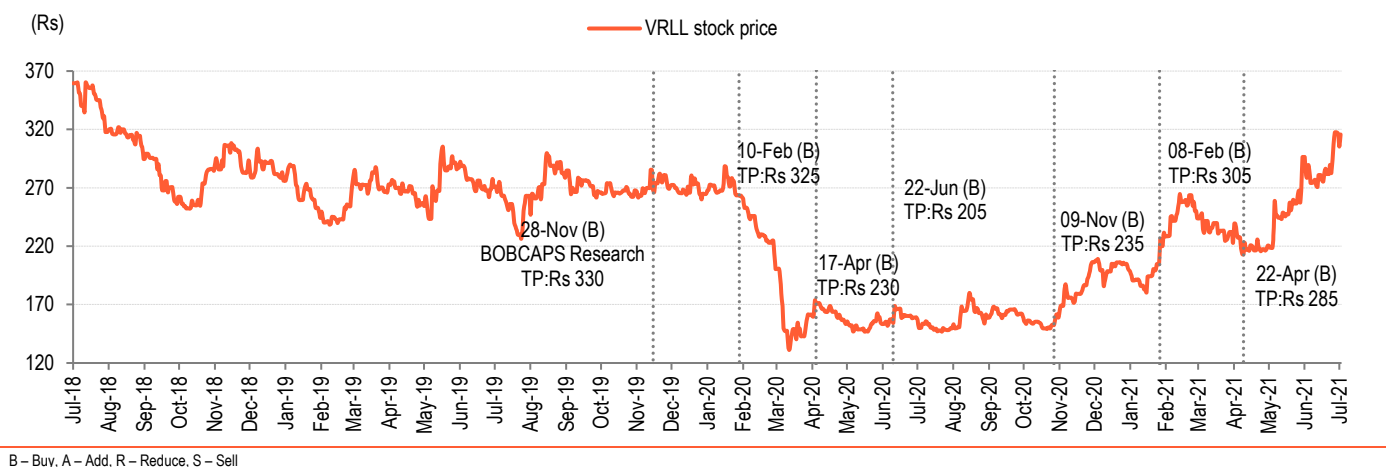
**Ratings and Target Price (3-year history): TRANSPORT CORP OF INDIA (TRPC IN)**



**Ratings and Target Price (3-year history): TCI EXPRESS (TCIEXP IN)**



**Ratings and Target Price (3-year history): VRL LOGISTICS (VRLL IN)**



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