

BUY

TP: Rs 255 | ▲ 47%

**TRANSPORT CORP OF
INDIA**

| Logistics

| 15 April 2020

Fundamentals intact, valuations compelling

Covid-19 has severely disrupted Transport Corp's (TRPC) operations across verticals. Freight and 3PL are the hardest hit while seaways is less affected. We expect a transitory spurt in demand once the lockdown is lifted, but full-fledged recovery could begin only in Q4FY21. However, TRPC's business fundamentals remain strong and we expect long-term industry trends to be favourable. We cut FY20-FY22 EPS estimates by 13-46% and lower our Mar'21 TP to Rs 255 (vs. Rs 355). Maintain BUY on attractive risk-reward post the recent correction.

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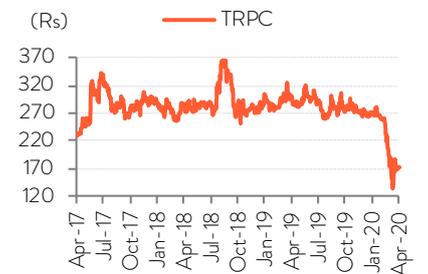
Freight, 3PL hit hard: TRPC's freight vertical is facing a demand slowdown due to reduced consumption spending, as well as supply disruptions due to shortage of manpower (drivers, porters) and obstruction of truck movement by local law enforcement authorities. Consequently, a meagre 10-15% of its trucks are currently running. In 3PL, most warehouses are operational, while some transport activity is taking place for e-commerce/FMCG clients. The seaways business is operating relatively smoothly, especially along the eastern coast.

Ticker/Price	TRPC IN/Rs 174
Market cap	US\$ 173.8mn
Shares o/s	77mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 327/Rs 122
Promoter/FPI/DII	67%/2%/10%

Source: NSE

Protracted recovery: The announced relaxation in goods movement post 20 April should provide some respite, but it will take 2-3 weeks more for long haul transport to function seamlessly. Once the lockdown is lifted, we expect a spurt in demand as supply chain gaps are filled, but the Covid-19-led economic slowdown is likely to mar FY21 performance. Recovery could begin in Q4FY21.

STOCK PERFORMANCE



Source: NSE

Conducive long-term trends: Notwithstanding near-term challenges, TRPC will continue to benefit from favourable long-term industry trends – (1) the growing need for multi-modal services (TRPC among the few to have such capabilities), (2) growing logistics outsourcing to 3PL companies (it is among the leading 3PL players), and (3) consolidation in the trucking industry, which is likely to be hastened by the pandemic (among the largest FTL and LTL players).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	23,499	27,536	27,296	26,227	30,672
EBITDA (Rs mn)	2,165	2,495	2,362	2,197	2,873
Adj. net profit (Rs mn)	1,238	1,460	1,387	1,005	1,493
Adj. EPS (Rs)	16.2	19.0	18.1	13.1	19.5
Adj. EPS growth (%)	52.4	17.7	(4.9)	(27.5)	48.5
Adj. ROAE (%)	17.6	17.7	14.5	9.5	12.7
Adj. P/E (x)	10.7	9.1	9.6	13.2	8.9
EV/EBITDA (x)	7.7	6.9	7.5	8.0	6.1

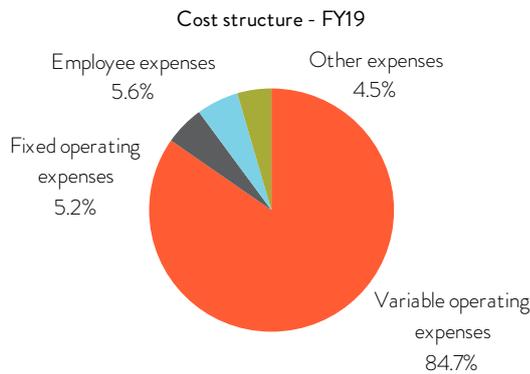
Source: Company, BOBCAPS Research

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FIG 1 – MAJORITY OF TRPC'S EXPENSES ARE VARIABLE IN NATURE



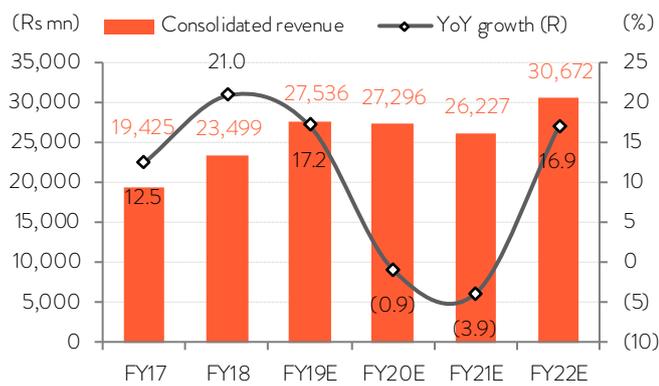
Source: Company, BOBCAPS Research | Fixed operating expenses include rent, power and fuel costs, vehicle insurance and taxes

FIG 2 – SEAWAYS TO INCREASE ITS SHARE IN CONSOLIDATED REVENUE IN FY21E



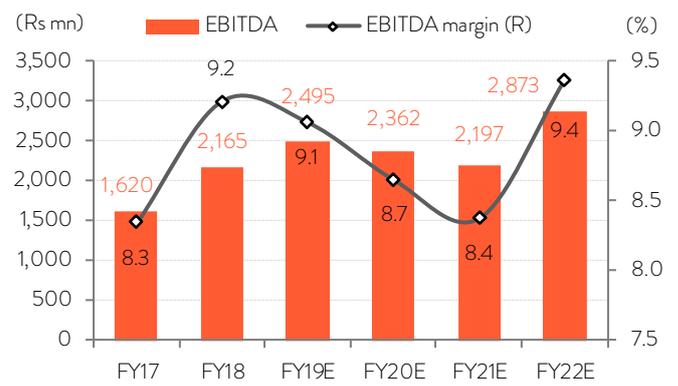
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE TO FALL IN FY20E-FY21E BEFORE BOUNCING BACK IN FY22E



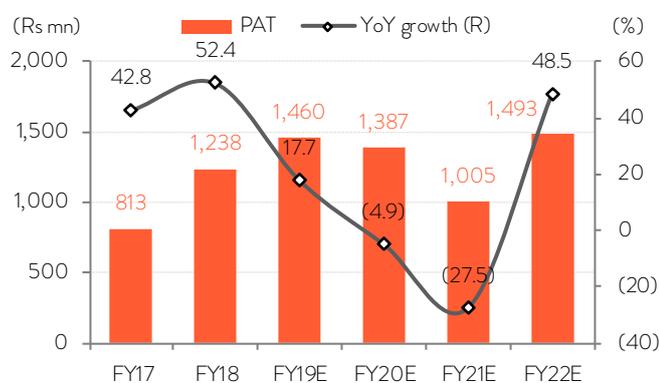
Source: Company, BOBCAPS Research

FIG 4 – EBITDA GROWTH AND MARGINS TO ALSO REVIVE ONLY IN FY22E



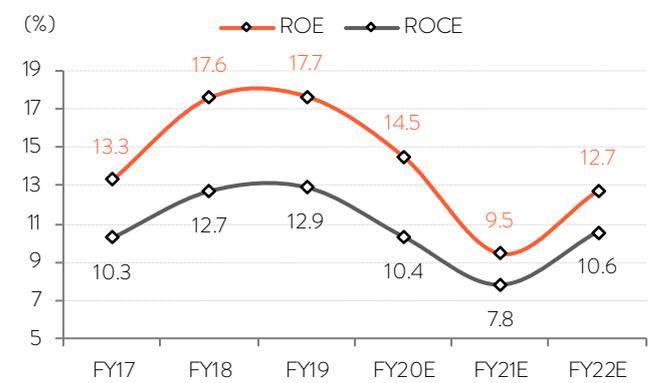
Source: Company, BOBCAPS Research

FIG 5 – STRONG EARNINGS GROWTH OF THE PAST TO REVERSE IN FY20E-FY21E



Source: Company, BOBCAPS Research

FIG 6 – ROE, ROCE TO BE ACCORDINGLY IMPACTED, BEFORE IMPROVING IN FY22E



Source: Company, BOBCAPS Research

Valuation methodology

We slash our FY20/FY21/FY22 EPS estimates by 13%/46%/34% to incorporate the negative impact that Covid-19 is likely to have across TRPC's three business verticals. Operating performance is expected to remain weak over the next few quarters. Post estimate revision, we lower our Mar'21 target price to Rs 255 from Rs 355. We continue to value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core businesses and P/E multiple for the profit from its Transystem JV.

We reiterate our positive view on the company given its multimodal capability – road, coastal shipping, and rail (through the JV with Container Corp), strong positioning across each of its business verticals, and robust client base comprising marquee names. At CMP, the stock trades at 9x FY22E EPS, which is a steep discount to its five-year historical trading multiple of 15.7x. We believe current valuations offer attractive risk-reward from a long-term investment horizon. Maintain BUY on TRPC as a value pick.

FIG 7 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	28,323	27,296	(3.6)	31,949	26,227	(17.9)	37,167	30,672	(17.5)
EBITDA	2,671	2,362	(11.6)	3,148	2,197	(30.2)	3,746	2,873	(23.3)
EBITDA margin (%)	9.4	8.7	(78bps)	9.9	8.4	(148bps)	10.1	9.4	(71bps)
PAT	1,603	1,387	(13.4)	1,853	1,005	(45.7)	2,263	1,493	(34.0)
PAT margin (%)	5.7	5.1	(58bps)	5.8	3.8	(197bps)	6.1	4.9	(122bps)

Source: Company, BOBCAPS Research

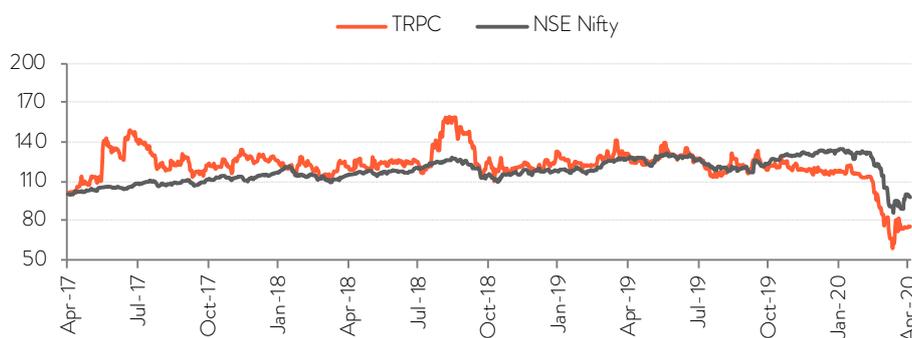
FIG 8 – VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
Freight segment	
FY22E EBITDA	645
EV/EBITDA multiple applied (x)	6.0
Total EV for the segment	3,867
Supply chain segment	
FY22E EBITDA	1,186
EV/EBITDA multiple applied (x)	8.0
Total EV for the segment	9,489
Seaways segment	
FY22E EBITDA	1,156
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	8,092
Total EV of the consolidated business (ex. JV)	21,448
Net debt	4,624
Equity value of the consolidated business (ex. JV)	16,824
FY22E EPS of Transystem Logistics	535

Segment-wise valuation	(Rs mn)
P/E multiple applied (x)	10
Fair value of Transystem Logistics	5,348
Share of TRPC (%)	49
Valuation attributed to TRPC	2,621
Total equity value including JV	19,445
No. of shares	76.7
Target price	255

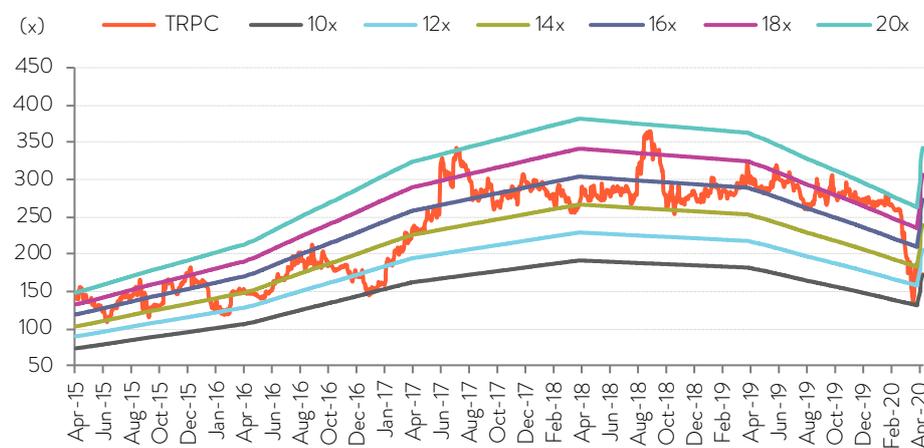
Source: Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

FIG 10 – TRPC TRADING AT STEEP DISCOUNT TO PAST TRADING MULTIPLE



Source: NSE

Key risks

Downside risks to our estimates include:

- a prolonged economic slowdown stemming from the Covid-19 shock,
- rising competitive intensity adversely impacting seaways volumes and/or realisations, and
- high client attrition in the supply chain segment.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	23,499	27,536	27,296	26,227	30,672
EBITDA	2,165	2,495	2,362	2,197	2,873
Depreciation	687	774	858	970	1,068
EBIT	1,478	1,721	1,504	1,227	1,805
Net interest income/(expenses)	(322)	(374)	(341)	(346)	(365)
Other income/(expenses)	144	195	178	167	188
Exceptional items	0	0	0	0	0
EBT	1,301	1,542	1,341	1,048	1,628
Income taxes	(287)	(333)	(171)	(236)	(397)
Extraordinary items	0	(7)	0	0	0
Min. int./Inc. from associates	224	251	218	193	262
Reported net profit	1,238	1,453	1,387	1,005	1,493
Adjustments	0	7	0	0	0
Adjusted net profit	1,238	1,460	1,387	1,005	1,493

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	597	674	588	563	654
Other current liabilities	805	1,336	1,496	1,437	1,681
Provisions	55	65	65	62	73
Debt funds	4,411	4,722	4,362	4,862	4,862
Other liabilities	0	0	0	0	0
Equity capital	153	153	153	153	153
Reserves & surplus	7,511	8,819	10,067	10,972	12,316
Shareholders' fund	7,664	8,972	10,221	11,126	12,470
Total liabilities and equities	13,533	15,770	16,730	18,049	19,738
Cash and cash eq.	142	155	445	238	278
Accounts receivables	4,249	5,151	5,235	6,108	7,143
Inventories	33	53	53	72	84
Other current assets	1,198	1,583	1,561	2,093	2,447
Investments	1,044	1,168	1,168	1,168	1,168
Net fixed assets	6,252	7,263	7,945	8,075	8,206
CWIP	563	40	0	0	0
Intangible assets	6	5	5	5	5
Deferred tax assets, net	(445)	(390)	(390)	(390)	(390)
Other assets	491	741	709	681	796
Total assets	13,533	15,770	16,730	18,049	19,738

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,925	2,234	2,246	1,976	2,562
Interest expenses	322	374	341	346	365
Non-cash adjustments	50	(55)	0	0	0
Changes in working capital	(832)	(940)	44	(1,483)	(1,172)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,465	1,613	2,630	839	1,754
Capital expenditures	(1,523)	(1,261)	(1,500)	(1,100)	(1,200)
Change in investments	(177)	(124)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,700)	(1,386)	(1,500)	(1,100)	(1,200)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	595	312	(361)	500	0
Interest expenses	(322)	(374)	(341)	(346)	(365)
Dividends paid	(123)	(138)	(139)	(101)	(149)
Other financing cash flows	40	(14)	0	0	0
Cash flow from financing	191	(214)	(840)	54	(514)
Changes in cash and cash eq.	(44)	13	290	(207)	40
Closing cash and cash eq.	142	155	445	238	278

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	16.2	19.0	18.1	13.1	19.5
Adjusted EPS	16.2	19.0	18.1	13.1	19.5
Dividend per share	1.6	1.8	1.8	1.3	1.9
Book value per share	99.5	116.4	132.6	144.4	162.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.7	0.6	0.6	0.7	0.6
EV/EBITDA	7.7	6.9	7.5	8.0	6.1
Adjusted P/E	10.7	9.1	9.6	13.2	8.9
P/BV	1.7	1.5	1.3	1.2	1.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	95.2	94.7	103.4	95.9	91.7
Interest burden (PBT/EBIT)	88.0	89.6	89.2	85.4	90.2
EBIT margin (EBIT/Revenue)	6.3	6.2	5.5	4.7	5.9
Asset turnover (Revenue/Avg TA)	2.0	2.1	1.9	1.7	1.8
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.5	1.5	1.5
Adjusted ROAE	17.6	17.7	14.5	9.5	12.7

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	21.0	17.2	(0.9)	(3.9)	16.9
EBITDA	33.6	15.3	(5.3)	(7.0)	30.8
Adjusted EPS	52.4	17.7	(4.9)	(27.5)	48.5
Profitability & Return ratios (%)					
EBITDA margin	9.2	9.1	8.7	8.4	9.4
EBIT margin	6.3	6.2	5.5	4.7	5.9
Adjusted profit margin	5.3	5.3	5.1	3.8	4.9
Adjusted ROAE	17.6	17.7	14.5	9.5	12.7
ROCE	12.7	12.9	10.4	7.8	10.6
Working capital days (days)					
Receivables	66	68	70	85	85
Inventory	1	1	1	1	1
Payables	10	10	9	9	9
Ratios (x)					
Gross asset turnover	3.4	3.2	2.7	2.3	2.4
Current ratio	3.9	3.3	3.4	4.1	4.1
Net interest coverage ratio	4.6	4.6	4.4	3.5	4.9
Adjusted debt/equity	0.6	0.5	0.4	0.4	0.4

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

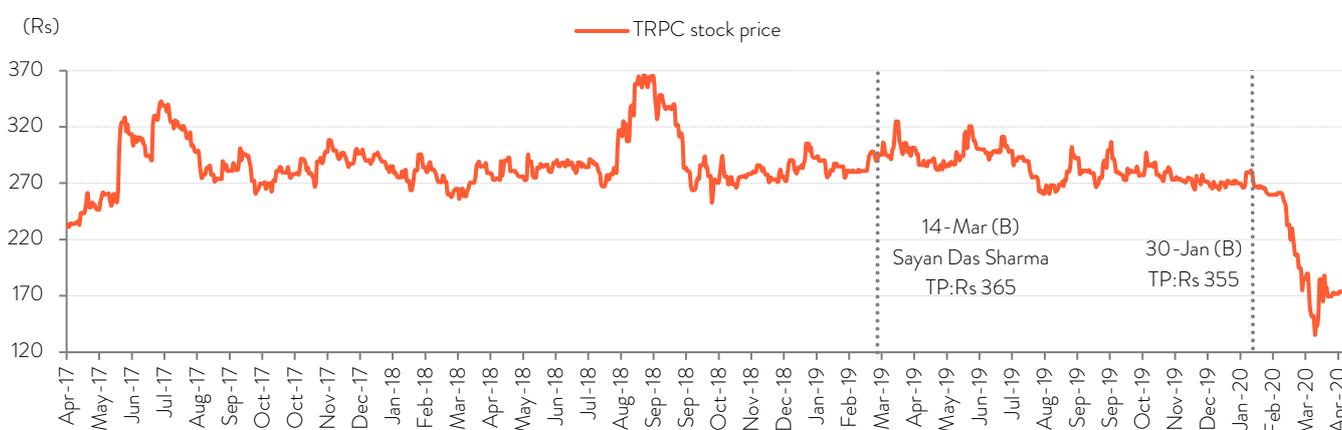
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: TRANSPORT CORP OF INDIA (TRPC IN)



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

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