

BUY

TP: Rs 300 | ▲ 33%

**TRANSPORT CORP OF
INDIA**

Logistics

04 November 2020

Healthy show continues

Transport Corp (TRPC) reported a solid Q2FY21 performance for the second successive quarter, surpassing our expectations on all fronts. Consolidated revenue rose 2% YoY (-16% est.) led by the seaways and SCS segments, fuelling a 6% increase in EBITDA. PBT jumped 20% YoY, aided by lower interest and higher other income, though lower Transystem JV share and higher taxes dragged adj. PAT down 23% YoY. Baking in the outperformance, we raise FY22/FY23 EPS by 11%/10% and roll over to a new Dec'21 TP of Rs 300 (vs. Rs 270). BUY.

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Seaways, SCS drive topline: Improved freight availability and the addition of a large ship in Q3FY20 drove TRPC's seaways revenue (+9% YoY) in Q2. Supply chain revenue also ticked up 1% YoY, after declining for four consecutive quarters, led by revival in the key auto sector (~80% of segment revenue).

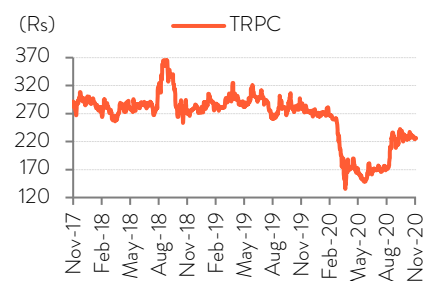
Freight revenue (consolidated) was flat YoY, as weakness in road was offset by strong growth in the rail-linked JV (+50% YoY). TRPC witnessed healthy traction in textiles, food grains, chemicals and dairy products in Q2. Going ahead, a gradual uptick in the economy should drive freight and seaways revenue. SCS is likely to benefit from higher auto volumes and traction in e-commerce.

Healthy margins: EBITDA margin expanded 35bps YoY to 8.9% due to lower staff (-74bps) and other expenses (-85bps), negating 124bps contraction in gross margin. Freight/SCS EBIT margins rose 52bps/23bps YoY to 3.4%/6.6%; seaways fell 45bps. Elevated rates may exert pressure on the freight segment, but seaways margins should expand as bunker fuel prices have turned benign.

TP raised: Baking in a healthy Q2, we raise EBITDA estimates for FY22/FY23 by 8% each. Rolling valuations forward, we increase our Dec'21 TP to Rs 300 (vs. Rs 270), set at unchanged EV/EBITDA multiples for each segment. Retain BUY.

Ticker/Price	TRPC IN/Rs 226
Market cap	US\$ 232.2mn
Shares o/s	77mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 293/Rs 122
Promoter/FPI/DII	67%/2%/12%

Source: NSE

STOCK PERFORMANCE**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	27,536	27,178	25,758	30,339	33,845
EBITDA (Rs mn)	2,495	2,405	2,219	2,891	3,346
Adj. net profit (Rs mn)	1,460	1,531	1,107	1,553	1,842
Adj. EPS (Rs)	19.0	19.9	14.4	20.2	24.0
Adj. EPS growth (%)	17.7	4.6	(27.7)	40.3	18.6
Adj. ROAE (%)	17.7	16.0	10.3	12.9	13.7
Adj. P/E (x)	11.9	11.4	15.7	11.2	9.4
EV/EBITDA (x)	8.5	9.0	9.7	7.4	6.3

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	6,969	6,846	1.8	4,057	71.8	11,026	13,438	(17.9)
Operating expenses	5,763	5,576	3.4	3,313	74.0	9,075	10,945	(17.1)
% of sales	82.7	81.5	124bps	81.6	104bps	82.3	81.5	86bps
Employee expenses	341	386	(11.6)	301	13.4	642	770	(16.6)
% of sales	4.9	5.6	(74bps)	7.4	(252bps)	5.8	5.7	10bps
Other expenses	243	297	(18.2)	138	76.5	380	552	(31.1)
% of sales	3.5	4.3	(85bps)	3.4	9bps	3.4	4.1	(66bps)
Total expenditure	6,346	6,258	1.4	3,751	69.2	10,097	12,266	(17.7)
EBITDA	622	587	6.0	306	103.2	929	1,171	(20.7)
EBITDA margin (%)	8.9	8.6	35bps	7.5	138bps	8.4	8.7	(29bps)
Depreciation	209	203	2.8	206	1.4	415	403	3.1
EBIT	414	384	7.7	100	312.8	514	769	(33.2)
Interest expenses	69	82	(16.1)	74	(6.2)	143	169	(15.7)
Other income	66	41	60.0	30	115.8	96	76	26.0
PBT	410	343	19.7	57	620.7	467	676	(30.9)
PBT margin (%)	5.9	5.0	88bps	1.4	448bps	4.2	5.0	(79bps)
Share of profit/(loss) from JV	47	92	(49.3)	(1)	(3,975.0)	45	175	(74.2)
PBT - after share of profit/(loss) from JV	457	435	5.1	56	719.7	512	851	(39.8)
Extraordinary income/(expense)	-	(99)	NM	-	-	-	(99)	NM
Tax rate	84	(47)	NM	9	887.1	92	26	262.4
Tax rate (%) – total	18.4	(10.7)	2,912bps	15.3	311bps	19.8	3.8	1601bps
Reported PAT	373	382	(2.5)	47	689.6	420	727	(42.2)
Adjustment	-	99	(100.0)	-	-	-	99	(100.0)
Adjusted PAT	373	481	(22.5)	47	689.6	420	826	(49.1)
Adjusted PAT margin (%)	5.3	7.0	(168bps)	1.2	418bps	3.8	6.1	(234bps)
Adjusted EPS	4.9	6.3	(22.5)	0.6	689.6	5.5	10.8	(49.1)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Freight segment								
Revenue	3,549	3,548	0.0	2,301	54.2	5,851	6,934	(15.6)
EBIT	120	101	18.3	41	196.3	161	192	(16.3)
EBIT margin	3.4	2.9	52bps	1.8	162bps	2.7	2.8	(2bps)
Supply chain management segment								
Revenue	2,513	2,478	1.4	1,145	119.5	3,658	4,918	(25.6)
EBIT	166	158	5.1	32	424.9	198	327	(39.4)
EBIT margin	6.6	6.4	23bps	2.8	385bps	5.4	6.7	(124bps)
Seaways segment								
Revenue	932	854	9.2	682	36.7	1,614	1,643	(1.7)
EBIT	155	145	6.3	41	280.5	195	302	(35.4)
EBIT margin	16.6	17.0	(45bps)	6.0	1,062bps	12.1	18.4	(629bps)

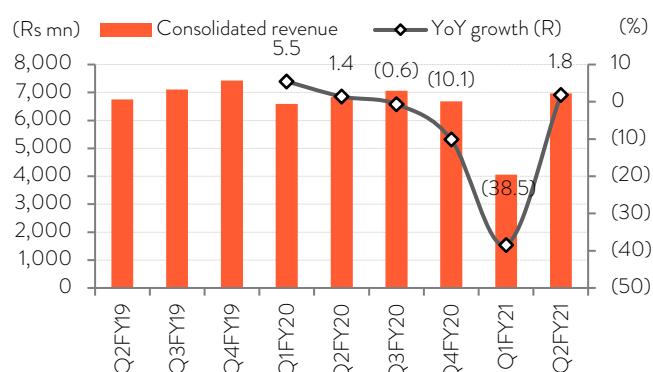
Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE – STANDALONE

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	6,122	6,282	(2.6)	3,280	86.7	9,402	12,403	(24.2)
Operating expenses	4,976	5,062	(1.7)	2,587	92.3	7,563	10,004	(24.4)
% of sales	81.3	80.6	71bps	78.9	241bps	80.4	80.7	(21bps)
Employee expenses	329	374	(11.9)	289	14.0	618	746	(17.2)
% of sales	5.4	5.9	(57bps)	8.8	(343bps)	6.6	6.0	55bps
Other expenses	227	281	(19.3)	126	80.4	353	526	(32.9)
% of sales	3.7	4.5	(77bps)	3.8	(13bps)	3.8	4.2	(49bps)
Total expenditure	5,532	5,717	(3.2)	3,001	84.3	8,533	11,276	(24.3)
EBITDA	590	566	4.3	279	111.9	869	1,128	(23.0)
EBITDA margin (%)	9.6	9.0	63bps	8.5	115bps	9.2	9.1	15bps
Depreciation	198	190	4.3	195	1.4	393	376	4.6
EBIT	392	376	4.3	83	370.8	476	752	(36.8)
Interest expenses	64	77	(17.3)	70	(8.5)	133	159	(16.4)
Other income	71	84	(15.2)	89	(20.4)	160	159	0.6
PBT	399	382	4.4	103	288.8	502	751	(33.2)
PBT margin (%)	6.5	6.1	44bps	3.1	339bps	5.3	6.1	(72bps)
Extraordinary income/(expense)	-	(99)	-	-	-	-	(99)	-
Tax rate	79	(49)	NM	4	1,834.1	83	22	272.3
Tax rate (%) – total	19.9	(12.8)	3,270bps	4.0	1,587bps	16.6	3.0	1363bps
Reported PAT	320	333	(3.8)	99	224.5	419	630	(33.6)
Adjustment	-	99	(100.0)	-	-	-	99	(100.0)
Adjusted PAT	320	432	(25.8)	99	224.5	419	729	(42.6)
Adjusted PAT margin (%)	5.2	6.9	(164bps)	3.0	222bps	4.5	5.9	(142bps)
Adjusted EPS	4.2	5.6	(25.8)	1.3	224.5	5.5	9.5	(42.6)

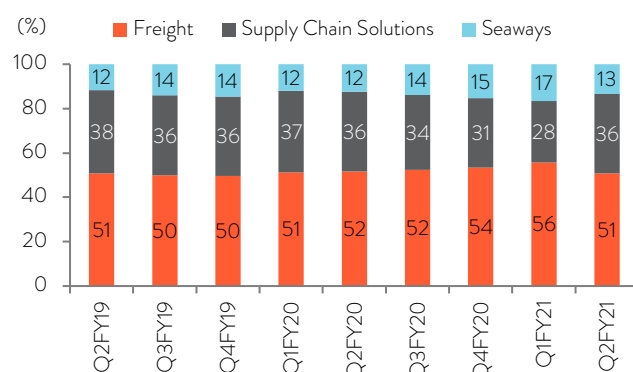
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE GREW 1.8% YOY



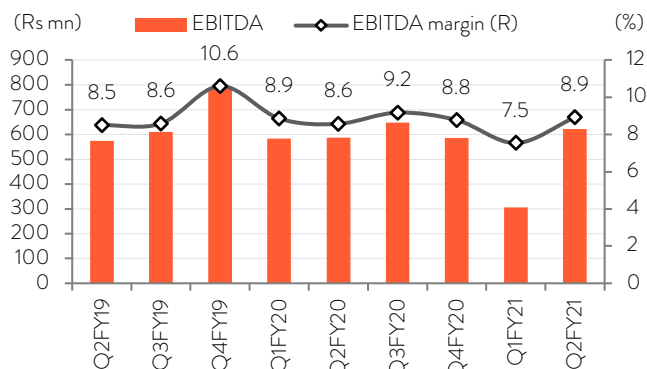
Source: Company, BOBCAPS Research

FIG 5 – SCS SEGMENT REGAINED REVENUE SHARE



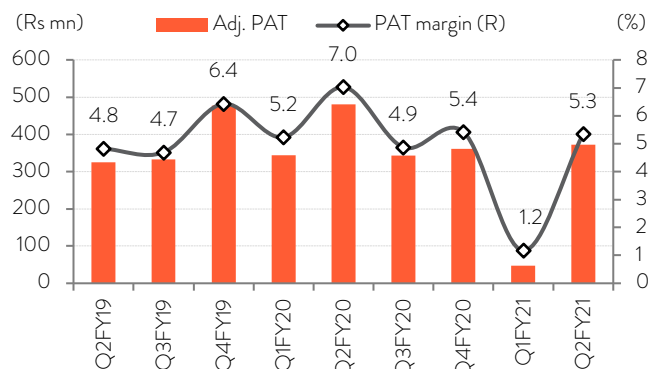
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBITDA MARGIN EXPANDED BY 35BPS YOY TO 8.9%



Source: Company, BOBCAPS Research

FIG 7 – HIGHER TAX RATE DRAGGED ADJ. PAT (POST JV SHARE) DOWN 23% YOY



Source: Company, BOBCAPS Research

FIG 8 – CAPEX PLAN AND FUNDING PATTERN

(Rs mn)	FY20	H1FY21	FY21E
Capex details			
Hub centres and small warehouses	152	350	118
Ships	509	400	-
Containers	187	280	112
Trucks and other vehicles	241	340	66
Others (IT, wind energy, WH equipment)	25	130	2
Total	1,114	1,500	297
Funding pattern			
Debt	700	-	440
Equity	-	-	-
Internal accrual	800	-	674
Total	1,500	-	1,114

Source: Company, BOBCAPS Research

Valuation methodology

Baking in the Q2FY21 outperformance and improving demand outlook across key industries – auto, e-commerce – we raise our EBITDA estimates by 7%/8%/8% for FY21/FY22/FY23. We continue to value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core business segments and P/E multiple for its 49% stake in the Transystem JV. Post estimate revision and on rolling over valuations, we have a revised Dec’21 target price of Rs 300 from Rs 270, set at unchanged TTM Dec’22E EBITDA multiples of 6x/8x/7x for the freight/SCS/seaways segments. Maintain BUY.

We continue to like TRPC for its multimodal capability – road, coastal shipping, and rail (through the JV with Container Corp), strong positioning across business segments, and robust clientele. The company should also benefit from rising LTL share within the freight segment and increasing logistics outsourcing trends in its 3PL/SCS segment. The stock is trading at attractive valuations of 11x/9.5x FY22E/FY23E EPS. We maintain our positive stance on the company as we remain optimistic on long-term business prospects.

FIG 9 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	25,098	25,758	2.6	29,510	30,339	2.8	32,935	33,845	2.8
EBITDA	2,067	2,219	7.4	2,686	2,891	7.6	3,111	3,346	7.6
EBITDA margin (%)	8.2	8.6	38bps	9.1	9.5	43bps	9.4	9.9	44bps
PAT	953	1,107	16.2	1,404	1,553	10.6	1,673	1,842	10.1
PAT margin (%)	3.8	4.3	50bps	4.8	5.1	36bps	5.1	5.4	36bps

Source: Company, BOBCAPS Research

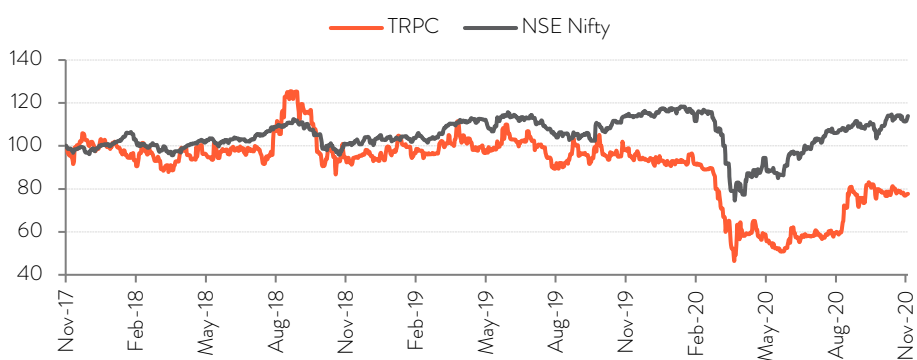
FIG 10 – VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
Freight segment	
TTM Dec’22E EBITDA	743
EV/EBITDA multiple applied (x)	6.0
Total EV for the segment	4,460
Supply chain segment	
TTM Dec’22E EBITDA	1,256
EV/EBITDA multiple applied (x)	8.0
Total EV for the segment	10,051
Seaways segment	
TTM Dec’22E EBITDA	1,386
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	9,701
Total EV of the consolidated business (ex. JV)	24,212
Net debt	3,511
Equity value of the consolidated business (ex. JV)	20,701

Segment-wise valuation	(Rs mn)
TTM Dec'22E PAT of Transystem Logistics	476
P/E multiple applied (x)	10.0
Fair value of Transystem Logistics	4,759
Share of TRPC (%)	49
Valuation attributed to TRPC	2,332
Total equity value including JV	23,033
No. of shares (mn)	76.9
Dec'21 Target price	300

Source: Company, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates include:

- continuing spread of the pandemic and a prolonged adverse impact on the economy,
- rising competitive intensity adversely impacting seaways volumes and/or realisations, and
- prolonged slowdown in the auto industry – a key end-user vertical for the seaways segment.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	27,536	27,178	25,758	30,339	33,845
EBITDA	2,495	2,405	2,219	2,891	3,346
Depreciation	774	825	898	1,017	1,117
EBIT	1,721	1,580	1,321	1,874	2,230
Net interest income/(expenses)	(374)	(343)	(307)	(305)	(281)
Other income/(expenses)	195	201	199	180	206
Exceptional items	0	0	0	0	0
EBT	1,542	1,438	1,212	1,749	2,154
Income taxes	(333)	(159)	(294)	(413)	(552)
Extraordinary items	(7)	(99)	0	0	0
Min. int./Inc. from associates	251	252	189	217	239
Reported net profit	1,453	1,432	1,107	1,553	1,842
Adjustments	7	99	0	0	0
Adjusted net profit	1,460	1,531	1,107	1,553	1,842

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	674	639	554	651	724
Other current liabilities	1,336	1,259	1,553	1,829	1,855
Provisions	65	102	97	114	127
Debt funds	4,722	4,236	4,536	4,186	3,836
Other liabilities	0	0	0	0	0
Equity capital	153	154	154	154	154
Reserves & surplus	8,819	10,142	11,249	12,569	14,042
Shareholders' fund	8,972	10,296	11,403	12,722	14,196
Total liabilities and equities	15,770	16,531	18,142	19,502	20,737
Cash and cash eq.	155	259	310	675	709
Accounts receivables	5,151	4,873	5,646	6,234	6,955
Inventories	53	66	62	83	93
Other current assets	1,583	1,877	2,022	2,102	2,345
Investments	1,168	1,354	1,354	1,354	1,354
Net fixed assets	7,263	7,479	8,296	8,530	8,663
CWIP	40	216	0	0	0
Intangible assets	5	5	5	5	5
Deferred tax assets, net	(390)	(302)	(302)	(302)	(302)
Other assets	741	706	750	822	917
Total assets	15,770	16,531	18,142	19,502	20,737

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	2,234	2,356	2,005	2,569	2,958
Interest expenses	374	343	307	305	281
Non-cash adjustments	(55)	(88)	0	0	0
Changes in working capital	(940)	(69)	(754)	(372)	(956)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,613	2,542	1,558	2,503	2,283
Capital expenditures	(1,261)	(1,216)	(1,500)	(1,250)	(1,250)
Change in investments	(124)	(185)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,386)	(1,401)	(1,500)	(1,250)	(1,250)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	312	(487)	300	(350)	(350)
Interest expenses	(374)	(343)	(307)	(305)	(281)
Dividends paid	(138)	(201)	0	(233)	(368)
Other financing cash flows	(14)	(6)	0	0	0
Cash flow from financing	(214)	(1,037)	(7)	(888)	(999)
Changes in cash and cash eq.	13	104	51	365	34
Closing cash and cash eq.	155	259	310	675	709

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	18.6	14.4	20.2	24.0
Adjusted EPS	19.0	19.9	14.4	20.2	24.0
Dividend per share	1.8	2.0	0.0	3.0	4.8
Book value per share	116.4	133.2	147.6	164.8	184.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.8	0.8	0.8	0.7	0.6
EV/EBITDA	8.5	9.0	9.7	7.4	6.3
Adjusted P/E	11.9	11.4	15.7	11.2	9.4
P/BV	1.9	1.7	1.5	1.4	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	94.7	106.4	91.3	88.8	85.5
Interest burden (PBT/EBIT)	89.6	91.0	91.8	93.3	96.6
EBIT margin (EBIT/Revenue)	6.2	5.8	5.1	6.2	6.6
Asset turnover (Revenue/Avg TA)	2.1	1.9	1.7	1.8	1.9
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.4	1.4	1.3
Adjusted ROAE	17.7	16.0	10.3	12.9	13.7

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	17.2	(1.3)	(5.2)	17.8	11.6
EBITDA	15.3	(3.6)	(7.8)	30.3	15.7
Adjusted EPS	17.7	4.6	(27.7)	40.3	18.6
Profitability & Return ratios (%)					
EBITDA margin	9.1	8.8	8.6	9.5	9.9
EBIT margin	6.2	5.8	5.1	6.2	6.6
Adjusted profit margin	5.3	5.6	4.3	5.1	5.4
Adjusted ROAE	17.7	16.0	10.3	12.9	13.7
ROCE	12.9	10.9	8.5	11.2	12.5
Working capital days (days)					
Receivables	68	65	80	75	75
Inventory	1	1	1	1	1
Payables	10	9	9	9	9
Ratios (x)					
Gross asset turnover	3.2	2.8	2.3	2.4	2.4
Current ratio	3.3	3.5	3.6	3.5	3.7
Net interest coverage ratio	4.6	4.6	4.3	6.1	7.9
Adjusted debt/equity	0.5	0.4	0.4	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

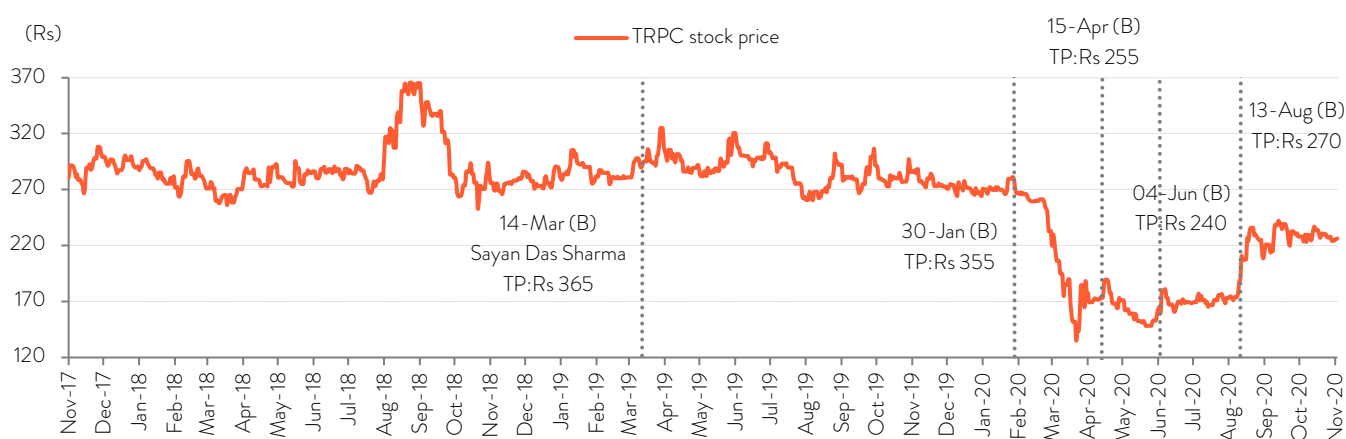
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): TRANSPORT CORP OF INDIA (TRPC IN)



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

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