



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

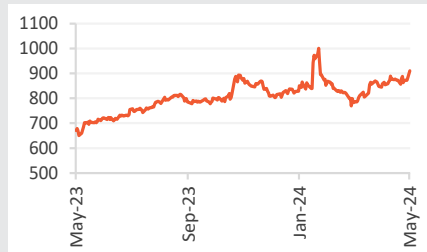
Company details

Market cap:	Rs. 7,076 cr
52-week high/low:	Rs. 1080/638
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	68.9
FII	2.7
DII	12.2
Others	16.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.1	4.8	3.5	35.7
Relative to Sensex	5.1	3.1	-8.1	16.8

Sharekhan Research, Bloomberg

Transport Corporation of India Ltd
Steady performance amid a weak environment; Retain BUY

Logistics	Sharekhan code: TCI		
Reco/View: Buy	↔	CMP: Rs. 910	Price Target: Rs. 1,100 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain BUY on TCI with a revised SOTP-based PT of Rs. 1,100, increasing our valuation multiples, considering its healthy net earnings growth trajectory over FY2024-FY2026E.
- TCI reported an in-line consolidated revenue, led by sustained growth in SCM and JVs. OPMs were a tad lower, while net earnings beat was led by lower tax outgo and higher income from JVs.
- Management has retained its overall topline and bottom-line growth guidance of 10-15% y-o-y, led by healthy momentum sustaining in SCM and JVs, while freight starts showing growth and seaways stay flat.
- TCI continues to scout for the acquisition of two new ships and simultaneously second hand ships opportunistically.

Transport Corporation of India Limited (TCI) reported an in-line consolidated revenue at Rs. 1,079 crore (up 10.2% y-o-y), aided by sustained growth in SCM (revenue up 11% y-o-y), while freight (up 5.6% y-o-y) and seaways (up 2% y-o-y) remained soft. Concor JV/cold chain/Transystem reported strong growth of 34%/63%/40% y-o-y. Consolidated OPM at 10.1% was a tad lower than our estimate of 10.5%, as the freight business saw margin pressures continuing in the LTL segment. Consolidated adjusted net profit at Rs. 104.5 crore (up 23% y-o-y) beat estimates, led by a lower effective tax rate and higher income from JVs. For FY2025, management has retained its overall topline and bottom-line growth guidance of 10-15% y-o-y, led by healthy momentum sustaining in SCM and JVs, while freight starts reported growth and seaways stayed flat. TCI is scouting for the acquisition of two new ships and simultaneously second-hand ships opportunistically. TCI has earmarked Rs. 375 crore capex for FY2025, which includes Rs. 70 crore ascribed to advance related to ship acquisition if it materialises.

Key positives

- SCM business's revenue grew 11% y-o-y to Rs. 368 crore. All its JVs reported strong growth y-o-y.
- Seaways reported strong EBITDA margin of 40.1% in Q4FY2024 as against 36.3% in Q3FY2024.

Key negatives

- Freight and seaways business reported soft revenue growth y-o-y. OPM in freight remained under pressure due to price cuts in the LTL segment due to a competitive environment.
- Interest expense increased 74% y-o-y and 17% q-o-q owing to increased loans.

Management Commentary

- Management has retained 10-15% y-o-y revenue and net profit growth guidance for FY2025. SCM is expected to grow in mid to high teens y-o-y, seaways is expected to remain flat, while freight would have slightly positive growth. JVs are expected to do well.
- On the margin front, SCM margin should creep up while it would try to get back to 4% EBITDA margin in freight with a focus on LTL. However, Q1FY2025 may not be as strong due to the ongoing elections.
- Capex for FY2025 is budgeted at Rs. 375 crore, which includes Rs. 70 crore advance related to ship acquisition.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2025-FY2026.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 1,100: TCI is expected to witness a softer demand environment in its freight business in the near term, in line with industry peers led by increased competitive environment. However, its SCM business and operations in JVs are expected to remain strong. The addition of new ships in seaways continues to remain the key monitorable. TCI's multi-modal capabilities and exposure to almost all major end-user industries place it in a much more comfortable position vis-à-vis its peers. The stock has inched up 12% since we upgraded the stock to BUY in our last report dated March 22, 2024, and is currently trading at a P/E of ~18x/16x its FY2025E/FY2026E earnings. We retain BUY on the stock with a revised SOTP-based price target (PT) of Rs. 1,100, increasing our valuation multiples considering its healthy net earnings growth trajectory over FY2024-FY2026E.

Key Risks

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

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	3,782.6	4,024.2	4,491.1	5,045.4
OPM (%)	11.2	10.2	10.5	10.7
Adjusted PAT	320.7	353.2	390.9	450.9
% YoY growth	10.7	10.1	10.7	15.4
Adjusted EPS (Rs.)	41.5	45.7	50.6	58.3
P/E (x)	21.9	19.9	18.0	15.6
P/B (x)	4.1	3.5	2.9	2.5
EV/EBITDA (x)	16.7	17.2	15.0	13.1
RoNW (%)	20.5	19.1	17.9	17.5
RoCE (%)	16.2	12.5	12.1	11.8

Source: Company; Sharekhan estimates

Operationally in-line; lower tax leads to PAT beat

TCI reported consolidated net revenue of Rs. 1,079 crore (up 10.2% y-o-y, up 7.7% q-o-q), which was broadly in line with our estimate. Revenue from freight increased 10.1% y-o-y (+14.4% q-o-q) to Rs. 555 crore. Supply chain management's revenue increased 13.4% y-o-y (+1.2% q-o-q) to Rs. 393 crore and seaways revenue fell 1.9% y-o-y (+4.6% q-o-q) to Rs. 149 crore. Consolidated OPM at 10.1% (-89bps y-o-y, +17bps q-o-q) was a tad lower than our estimate of 10.5%, owing to higher revenue from the freight business vis-à-vis seaways. Lower OPM y-o-y led to marginal growth in consolidated operating profit at 1.2% y-o-y (up 9.5% q-o-q) at Rs. 109 crore (3% below estimate). Lower effective tax rate (3.3% vs. 13.8%/14.8% in Q4FY2023/Q3FY2024) led to consolidated adjusted net profit growth of 23.1% y-o-y (up 31.6% q-o-q) to Rs. 105 crore, which was 22% higher than our estimate).

Key Conference Call Takeaways

- ◆ **Guidance:** Management has retained 10-15% y-o-y revenue and net profit growth guidance for FY2025. SCM is expected to grow in mid to high teens y-o-y, seaways is expected to be flat, while freight would report slightly positive growth. The JVs are expected to do well. On the margin front, SCM margins should creep up while it tries to get back to a 4% EBITDA margin in freight with a focus on LTL. However, Q1FY2025 may not be as strong due to the ongoing elections.
- ◆ **Outlook:** All businesses did well in Q4. SCM saw picking up of growth in the auto sector. March 2024 especially saw growth across businesses. FASTag and GST collection data remained strong. A few sectors such as clothing, apparel, and consumption stayed weak. In auto, barring tractor and heavy equipment, all others witnessed growth.
- ◆ **Capex:** Capex for FY2025 is budgeted at Rs. 375 crore, which includes advance related to Rs. 70 crore ship acquisition.
- ◆ **Freight:** The segment's revenue increased 5.6% y-o-y although margins remained under pressure during Q4. LTL business suffered rate cuts as express players ventured into the market to capture market share. FTL business had small margin pressure due to the general slowdown. It added 30 new branches in FY2024 and targets to add 75 branches in FY2025. About 20-25% customers come on a spot booking basis.
- ◆ **SCM:** The segment's revenue witnessed 11.3% y-o-y growth with stable margins. 75% of the business is from the automotive sector.
- ◆ **Seaways:** The segment's revenue increased 2% y-o-y. It has completed two dry docks out of three in FY2025 to date (dry docking of three ships is expected to be done in Q1FY2025). It is still looking to buy two new ships. The priority is to buy a new ship, which would take two and half years to get delivered while simultaneously it is looking for a second-hand ship.
- ◆ **Other verticals:** Concor JV saw 13% topline growth and 10-12% bottom-line growth. Cold chain business saw 35% growth, while Transystem JV grew 46%.
- ◆ **Multi-modal mix:** Currently, 33% business comes from multi-modal logistics, which is expected to increase by 100-200bps each year.
- ◆ **Transystem JV:** Growth is driven by Japanese OEMs, primarily Toyota and Suzuki. It is akin to supply-chain management and not freight. It targets 20-25% revenue and PAT growth for FY2025.

Results (Consolidated)				Rs cr	
Particulars	Q4FY2024	Q4FY2023	y-o-y (%)	Q3FY2024	q-o-q %
Net sales	1078.9	979.3	10.2%	1002.0	7.7%
Other income	16.5	12.1	36.7%	9.5	73.7%
Total income	1095.4	991.4	10.5%	1011.5	8.3%
Total expenses	969.5	871.3	11.3%	902.1	7.5%
Operating profit	109.4	108.1	1.2%	99.9	9.5%
Depreciation	33.4	31.1	7.4%	33.1	0.9%
Interest	4.1	2.4	73.7%	3.5	17.1%
Exceptional items	2.4	3.4	-	0.0	-
Profit Before Tax	86.0	83.3	3.3%	72.8	18.1%
Taxes	2.8	11.5	-75.6%	10.8	-74.1%
PAT	83.2	71.8	15.9%	62.0	34.2%
Minority Interest/JV income	-18.9	-9.7	95.4%	-17.4	8.6%
Adjusted PAT	104.5	84.9	23.1%	79.4	31.6%
EPS (Rs.)	13.5	11.0	23.1%	10.3	31.6%
Margins			BPS		BPS
OPM (%)	10.1%	11.0%	-89	10.0%	17
NPM (%)	9.7%	8.7%	102	7.9%	176
Tax rate (%)	3.3%	13.8%	-1052	14.8%	-1158

Source: Company, Sharekhan Research

Outlook and Valuation

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

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

■ Company outlook - Multi-modal capabilities a distinctive advantage

TCI has a strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and supply-chain businesses, with over six decades of experience, gives it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on AtmaNirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities.

■ Valuation - Retain BUY with a revised PT of Rs. 1,100

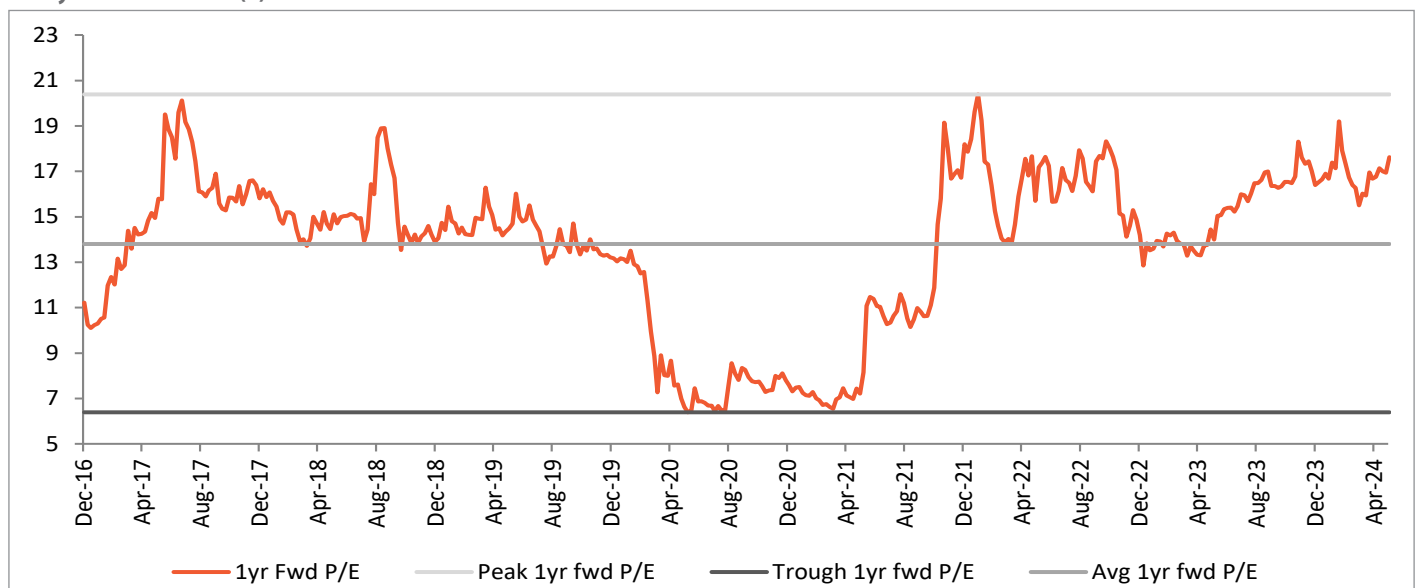
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Valuation Summary

Particulars	Valuation method	EV (Rs. cr)	Value per share (Rs.)
Freight	11x EV/EBITDA on Mar26E	1158	150
SCM	12x EV/EBITDA on Mar26E	2790	361
Seaways	14x EV/EBITDA on Mar26E	2976	385
Less: Net Debt	FY2026E		-42
Value of core verticals		7252	938
Transystem JV	1x P/B	1247	161
Price Target (Rs.)			1100

Source: Company, Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

About company

TCI is India's leading integrated supply chain and logistics solutions provider with over six decades of experience. The company has an extensive pan-India network present across major districts. TCI has 12 mn. sq. ft. of warehousing space. The company has three broad business verticals. TCI Freight transports cargo on FTL/ LTL/small packages and consignments/over-dimensional cargo. TCI Supply Chain Solutions: The core service offerings are supply chain consultancy, inbound logistics, warehousing/distribution centre management, and outbound logistics. TCI Seaways: TCI Seaways owns six ships and caters to coastal cargo requirements for transporting containers and bulk cargo.

Investment theme

TCI has a strong long-term growth potential as it operates in a fragmented and highly unorganised logistics industry. The company's presence in multi-modal logistics and the supply chain business with over six decades of experience gives it a distinctive advantage to capture the high-growth potential in the logistics sector. TCI is expected to benefit from the logistics sector's growth tailwinds, led by GST, increased outsourcing of logistics services owing to COVID-19, the government's thrust on AtmaNirbhar Bharat, and global supply chain re-alignments. We expect TCI to be on a long-term growth trajectory, driven by positive sectoral fundamentals and its inherent strengths and capabilities..

Key Risks

- ◆ Slowdown in the macroeconomy, leading to a weak logistics industry outlook.
- ◆ High concentration on the automotive industry.
- ◆ Highly competitive industry.

Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bhoruka Supply Chain Solutions Hol	44.28
2	Agarwal Dharmpal P	10.11
3	HDFC Asset Management Co. Ltd.	7.91
4	Agarwal Vineet	3.99
5	Agarwal Priyanka	3.82
6	Agarwal Urmila	2.39
7	Agarwal Chander	2.36
8	Tata Asset Management Pvt. Ltd.	1.4
9	INVESTOR EDUCATION & PROTECTN FD	1.25
10	Bang Nirmal Mishrilal	1.12

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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