



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	■	↔	■

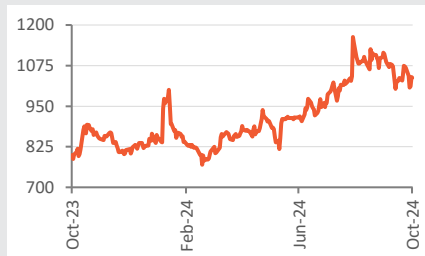
Company details

Market cap:	Rs. 7,944 cr
52-week high/low:	Rs. 1,250 / 686
NSE volume: (No of shares)	2.3 lakh
BSE code:	532349
NSE code:	TCI
Free float: (No of shares)	2.4 cr

Shareholding (%)

Promoters	68.8
FII	3.0
DII	12.4
Others	15.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.5	8.1	16.7	29.9
Relative to Sensex	0.3	8.9	9.9	5.9

Sharekhan Research, Bloomberg

Transport Corporation of India Ltd

Strong performance in a sluggish environment; Retain BUY

Logistics	Sharekhan code: TCI		
Reco/View: Buy	↔	CMP: Rs. 1,038	Price Target: Rs. 1,400 ↔
	↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- We retain BUY on TCI with an unchanged SOTP-based PT of Rs. 1,400, considering its sustained healthy earnings growth trajectory over the next 2-3 years.
- TCI reported marginally higher-than-expected consolidated revenue, led by strong growth in Seaways and sustained growth in SCM and JVs. OPM stayed in-line, while net profit beat estimates.
- Management has retained its overall topline and bottom-line growth guidance of 10-15% y-o-y for FY2025, while it may end at a higher end of the growth guidance on net profit.
- The company would be incurring Rs. 300-350 crore capex in FY2025, including for new ship acquisition.

Transport Corporation of India Limited (TCI) reported higher-than-estimated consolidated revenue at Rs. 1,121 crore (up 12.8% y-o-y), aided by strong growth in Seaways (revenue up 22% y-o-y), sustained growth in SCM (12% y-o-y), while freight (up 6.5% y-o-y) remained soft (as per expectation). Concor JV/cold chain/Transystem reported strong revenue growth of 31%/30%/20% y-o-y. Consolidated OPM at 10.4% stayed in-line with our estimate of 10.4%, owing to higher contribution from the high-margin Seaways business (OPM up 52bps y-o-y to 40.5%), while freight saw margin pressures continuing (OPM down 29 bps q-o-q to 3.2%). SCM remained stable q-o-q (OPM at 9.3%). Consolidated adjusted net profit at Rs. 106.4 crore (up 22.3% y-o-y) came in 9% ahead of estimates. For FY2025, management has retained its overall topline and bottom-line growth guidance of 10-15% y-o-y, while it may achieve the higher end of the growth guidance on the net profit front. The company would be incurring Rs. 300-350 crore capex in FY2025, including Rs. 80 crore towards ship acquisition.

Key positives

- Seaways reported strong 22% y-o-y revenue growth, improving sequential EBITDA margin by 52bps to 40.5%.
- SCM sustained growth momentum with 12% y-o-y revenue growth, while EBITDA margin remained stable q-o-q at 9.3%.
- Concor JV/cold chain/Transystem reported strong revenue growth of 31%/30%/20% y-o-y.

Key negatives

- Freight reported soft revenue growth of 6.5% y-o-y. OPM in freight remained under pressure due to lower MSME growth in a competitive environment.
- Receivables increased due to a tight credit environment. The same is expected to normalise in H2FY2025.

Management Commentary

- Management has retained its consolidated revenue and net profit growth guidance of 10-15% y-o-y for FY2025, while it may end at the higher end of the growth rate in net profit. The freight segment's topline is expected to grow anywhere between 7-10%, while the bottom line is expected to be same as last year in FY2025.
- The company incurred Rs. 90 crore capex during H1FY2025. It would be incurring Rs. 300-350 crore capex in FY2025.
- The company opened 15 and 17 branches in Q1FY2025 and Q2FY2025, respectively.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2025-FY2027.

Our Call

Valuation – Retain BUY with an unchanged PT of Rs. 1,400: 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. Further, the addition of two new ships in Seaways is expected to drive earnings from FY2028, while it continues to scout for second-hand ships. 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 peers. The stock is currently trading at a P/E of ~18x/15x its FY2026E/FY2027E earnings. We retain BUY on the stock with an unchanged SOTP-based price target (PT) of Rs. 1,400, considering its healthy earnings growth trajectory over the next 2-3 years.

Key Risks

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

Valuation (Consolidated)

Particulars	Rs cr			
	FY24	FY25E	FY26E	FY27E
Revenue	4,024.2	4,465.5	5,030.0	5,713.5
OPM (%)	10.2	10.5	10.7	10.7
Adjusted PAT	353.2	400.3	459.4	529.6
YoY growth (%)	10.1	13.3	14.8	15.3
Adjusted EPS (Rs.)	45.7	51.8	59.4	68.5
P/E (x)	22.7	20.0	17.5	15.1
P/B (x)	4.0	3.4	2.8	2.4
EV/EBITDA (x)	18.2	16.0	13.9	12.2
RoNW (%)	19.1	18.3	17.7	17.3
RoCE (%)	12.5	12.5	12.1	11.8

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- ◆ **Guidance:** Management has retained its consolidated revenue and net profit growth guidance of 10-15% y-o-y for FY2025, while it may end at the higher end of the growth rate in net profit. The freight segment's topline is expected to grow anywhere between 7-10%, while the bottom line is expected to be same as last year in FY2025.
- ◆ **Outlook:** Q2FY2025 had been on an overall consumption side although industrials and a few others saw good growth. This year festive-led stockings were 5-10% better compared with last year. In the auto segment, the 2W segment was robust, while PVs, tractors, and CV segments were weak. Production cuts in auto have started earlier, which does not augur well.
- ◆ **Q2FY2025 performance:** Consolidated revenue increased 13% y-o-y to Rs. 1,121 crore, operating profit grew by 17% y-o-y to Rs. 117.1 crore, and net profit grew by 22% y-o-y to Rs. 106.4 crore during Q2FY2025. It remained net cash surplus at Rs. 280 crore post completing Rs. 160 crore buyback. The debt stands at Rs. 100 crore, which is related to new truck additions.
- ◆ **Freight:** The freight segment stayed weak on account of a lack of growth on the LTL side and tight credit conditions in the MSME segment. It maintained a 40% LTL mix target for next year. Competitive pressure continues, growth is limited, and cost structure is high. The company expects freight to stabilise over the next 2-3 quarters.
- ◆ **SCM:** SCM revenue grew by 12% y-o-y in Q2FY2025. EBITDA margin stayed flat q-o-q as it invested in new trucks. The business pipeline remains strong. It expects SCM to be the biggest business in FY2026.
- ◆ **Seaways:** Seaways revenue grew by 22% y-o-y in revenue and 65% in net profit during Q2FY2025. Domestic rates went up as some of the ships moved to international waters. Additionally, stable fuel prices helped operational performance. It has its next dry dock during the fag end of the current financial year. Currently, it has no visibility of purchase of a second-hand ship.
- ◆ **JV performance:** Its JV with concor saw 31% y-o-y revenue growth, cold chain grew by 30% y-o-y and transystem grew by 20% y-o-y in Q2FY2025.
- ◆ **Branches:** It opened 15 and 17 branches in Q1FY2025 and Q2FY2025, respectively.
- ◆ **Capex:** It incurred Rs. 90 crore capex during H1FY2025. It would be incurring Rs. 300-350 crore capex in FY2025.
- ◆ **Receivables:** The increase in receivables was on account of tighter credit conditions with large customers not paying on time. The same is temporary and is expected to normalise in H2FY2025.

Results (Consolidated)

Particulars	Rs cr				
	Q2FY2025	Q2FY2024	Y-o-Y (%)	Q1FY2025	Q-o-Q (%)
Net sales	1120.8	993.5	12.8%	1045.1	7.2%
Other income	10.6	11.3	-6.2%	10.9	-2.8%
Total income	1131.4	1004.8	12.6%	1056.0	7.1%
Total expenses	1003.7	893.1	12.4%	941.3	6.6%
Operating profit	117.1	100.4	16.6%	103.8	12.8%
Depreciation	29.1	31.1	-6.4%	29.0	0.3%
Interest	4.6	3.4	35.3%	4.2	9.5%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	94.0	77.2	21.8%	81.5	15.3%
Taxes	10.9	9.6	13.5%	11.0	-0.9%
PAT	83.1	67.6	22.9%	70.5	17.9%
Minority Interest/(JV income)	-23.3	-19.4	20.1%	-20.5	13.7%
Adjusted PAT	106.4	87.0	22.3%	91.0	16.9%
EPS (Rs.)	13.8	11.3	22.3%	11.8	16.9%
Margins			BPS		BPS
OPM (%)	10.4%	10.1%	34	9.9%	52
NPM (%)	9.5%	8.8%	74	8.7%	79
Tax rate (%)	11.6%	12.4%	-84	13.5%	-190

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 a 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 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 an unchanged PT of Rs. 1,400

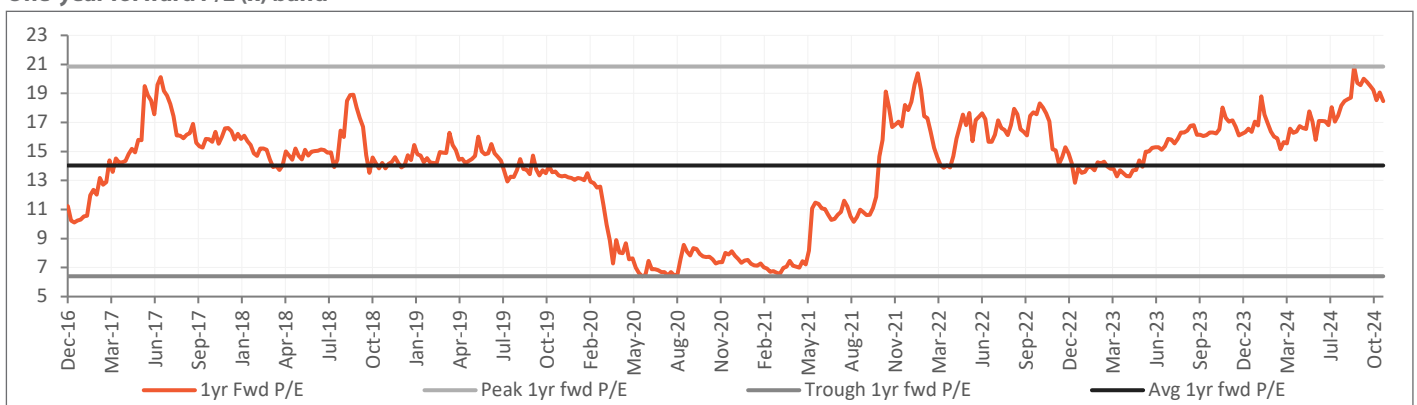
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Valuation Summary

Particulars	Valuation method	EV (Rs. crore)	Value per share (Rs.)
Freight	12x EV/EBITDA on H1FY2027E	1288	167
SCM	14x EV/EBITDA on H1FY2027E	3462	448
Seaways	16x EV/EBITDA on H1FY2027E	3760	487
Less: Net Debt	H1FY2027E		-43
Value of core verticals		8839	1144
Transystem JV	22x P/E on H1FY2027E	1984	257
Price Target (Rs.)			1,400

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 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 macro economy, 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bhoruka Supply Chain Solutions Hol	44.20
2	Agarwal Dharmal P	10.07
3	HDFC Asset Management Co Ltd	7.74
4	Agarwal Vineet	3.90
5	Agarwal Priyanka	3.80
6	Agarwal Urmila	2.38
7	Agarwal Chander	2.36
8	Tata Asset Management Pvt Ltd	1.52
9	INVESTOR EDUCATION & PROTECTN FD	1.38
10	Bang Nirmal Mishrilal	1.11

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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