Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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

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		↔	

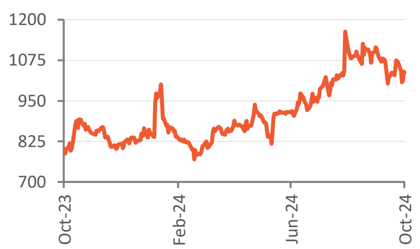
Company details

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

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) Rs cr

Particulars	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