



Logistics

Pandemic redefining industry landscape

April 2021

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LOGISTICS

22 April 2021

Pandemic redefining industry landscape

Our logistics coverage has rebounded from the black swan Covid event of H1FY21. Though recovery is threatened by a second pandemic wave, industry sources indicate supply chains are more resilient this time around. Our ground checks also reveal four key themes – multimodal transport, logistics outsourcing, tech adoption, and trucking consolidation – that could shape Indian logistics in a post-pandemic era. We estimate a median revenue/PAT CAGR of 17%/36% for our coverage over FY21-FY23 and reiterate our preference for MLL, TCIEXP and VRLL.

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Strong recovery from H1FY21 trough....: After the pandemic-induced shock in H1, high frequency economic indicators show a resurgence in manufacturing activity in H2FY21. The IMF has also raised its FY22 GDP growth forecast for India to 12.5%. As the macro climate improved, median revenue growth for the logistics sector scripted a 14% YoY uptick in Q3FY21, after a steep 47% drop in Q1. We expect 22% YoY growth in Q4 and a healthy 15% EBITDA margin.

...but second wave poses a risk: The sharp rise in coronavirus infections in recent weeks may halt recovery trends. Our discussions with various logistics companies indicate that the impact on the supply chain is likely to be milder than last year, owing to higher levels of preparedness at both clients and logistic service providers. That said, we take cognizance of the disruption and lower FY22 earnings estimates for most of our coverage companies by 2-8%.

Key industry themes over next five years: We interacted with logistics players across segments to identify evolving long-term industry trends. Four key themes stand out – (1) demand for multimodal transport, (2) rise in logistics outsourcing, (3) swifter adoption of technology, and (4) consolidation in trucking. We believe Mahindra Logistics (MLL), Transport Corp (TRPC), and VRL Logistics (VRLL) will be key beneficiaries of these trends.

Top picks: We forecast a median revenue/PAT CAGR of 17%/36% for our logistics universe over FY21-FY23, a sharp bounce-back from the 8%/18% decline posted over FY19-FY21E. As highlighted in our [sector initiation report](#), we reiterate our preference for asset-light companies – MLL and TCI Express (TCIEXP) – from a long-term perspective owing to the scalability of their business models and structural tailwinds. We also like VRLL as a quality cyclical play and believe its asset-intensive model can outperform the industry in a cyclical upturn.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
CCRI IN	549	505	SELL
MAHLOG IN	520	630	BUY
TCIEXP IN	833	1,140	BUY
TRPC IN	272	320	BUY
VRLL IN	213	285	BUY

Price & Target in Rupees | Price as of 21 Apr 2021
 MAHLOG = MLL



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Estimate revision and Valuation summary

Revision in estimates and target prices

FIG 1 – BOBCAPS LOGISTICS UNIVERSE: REVISED ESTIMATES

Company	FY22E Revenue (Rs mn)			FY23E Revenue (Rs mn)			FY22E EPS (Rs)			FY23E EPS (Rs)		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
CCRI	75,734	75,734	-	87,880	87,880	-	21.3	21.3	-	25.3	25.3	-
MLL	40,052	41,024	2.4	46,440	47,304	1.9	12.6	13.7	8.3	16.7	17.9	7.0
TCIEXP	10,773	10,589	(1.7)	12,539	12,324	(1.7)	32.4	31.8	(1.8)	38.8	38.1	(2.0)
TRPC	31,705	30,722	(3.1)	35,383	34,282	(3.1)	22.0	20.2	(8.3)	25.7	23.9	(7.3)
VRLL	21,550	20,890	(3.1)	23,731	23,002	(3.1)	11.9	11.1	(6.8)	13.9	12.9	(6.9)

Source: BOBCAPS Research

FIG 2 – BOBCAPS LOGISTICS UNIVERSE: REVISED TARGET PRICES

Company	Valuation methodology	Change in multiple	New TP (Rs)	Old TP (Rs)
CCRI	20x FY23E P/E	Raised to 20x from 17x	505	425
MLL	35x FY23E P/E	Raised to 35x from 33x	630	555
TCIEXP	30x FY23E P/E	No change	1,140	1,165
TRPC	SOTP – 6x/8x/7x FY23E EV/EBITDA for freight/SCS/coastal segments, 10x FY23E P/E for Transsystem JV	No change	320	330
VRLL	22x FY23E P/E	No change	285	305

Source: BOBCAPS Research

Valuation summary

FIG 3 – BOBCAPS LOGISTICS UNIVERSE: VALUATION SUMMARY

Company	Mkt cap (Rs)	CMP (Rs)	TP (Rs)	Rating	Upside (%)	Adj. EPS (Rs)			P/E (x)			ROE (%)		
						FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
CCRI	3,36,242	549	505	SELL	(8.0)	14.2	21.3	25.3	38.7	25.8	21.7	8.3	11.7	12.9
MLL	37,811	520	630	BUY	21.2	5.9	13.7	17.9	88.1	38.0	29.1	7.5	15.7	18.0
TCIEXP	31,769	833	1,140	BUY	36.9	22.7	31.8	38.1	36.7	26.2	21.9	23.1	26.3	25.5
TRPC	20,132	272	320	BUY	17.6	18.3	20.2	23.9	14.9	13.5	11.4	12.9	12.7	13.5
VRLL	19,281	213	285	BUY	33.8	4.1	11.1	12.9	52.0	19.2	16.5	6.0	16.0	17.6

Source: BOBCAPS Research

Industry outlook

Manufacturing indicators improving but new Covid wave a risk

After the pandemic-induced shock in H1FY21, key economic indicators show that India's manufacturing activity has rebounded in H2. Aided by the manufacturing uptick, median revenue growth for the logistics sector scripted a 14% YoY rebound in Q3FY21 on the heels of a 47% drop in Q1. We forecast 22% YoY growth in Q4FY21 along with a healthy EBITDA margin of 15%. That said, the pandemic's resurgence in recent weeks could hinder recovery and hence we prune FY22 earnings estimates for most coverage companies by 2-8%.

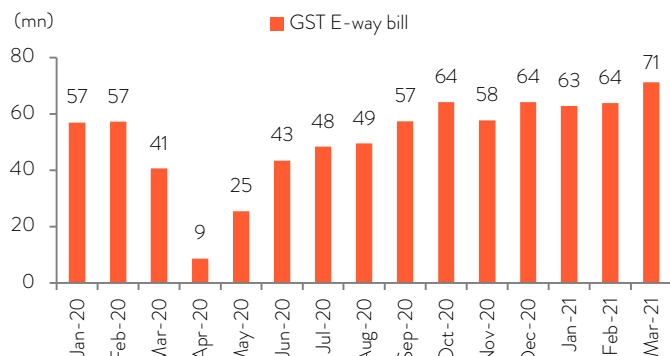
High frequency indicators signal sharp economic rebound in H2

From the depths of Q1FY21, where Covid-led lockdowns crippled economic activity, India's manufacturing economy has registered dramatic improvement in H2FY21. A gradual opening up of the economy coupled with pent-up demand, general revival in consumption spending and an uptick in global trade were key catalysts of this turnaround. Several high frequency economic indicators bear testament to this recovery:

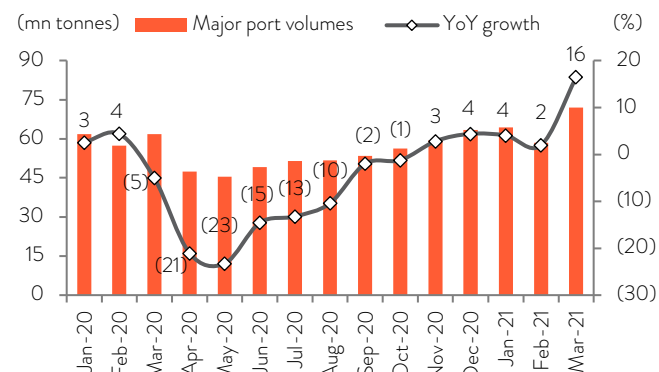
- Following an 84%/53% YoY plunge in Apr/May'20, GST e-way bill collection revived in H2FY21 and eventually scaled new highs of 71mn bills generated in Mar'21 – the highest since its inception in 2017.
- Total cargo volumes at major ports fell YoY for eight consecutive months between Mar'20 and Oct'20, before surging to an all-time high of 72mn tonnes in Mar'21.
- Non-oil, non-gold EXIM trade (in US dollar terms) bounced back to 17% YoY growth in the last four months of FY21, as against an 18% YoY decline during the first eight months.

Similar positive trends are visible across other high frequency indicators as well – freight carried by the Indian Railways, diesel consumption, manufacturing index of industrial production (IIP) and air freight cargo – signaling a well-rounded, broad-based economic recovery (Fig 1-6). Given the faster turnaround than anticipated, the IMF recently raised its FY22 GDP growth forecast for India from 11.5% to 12.5%, following an estimated 8% contraction in FY21. This augurs well for logistics companies under our coverage.

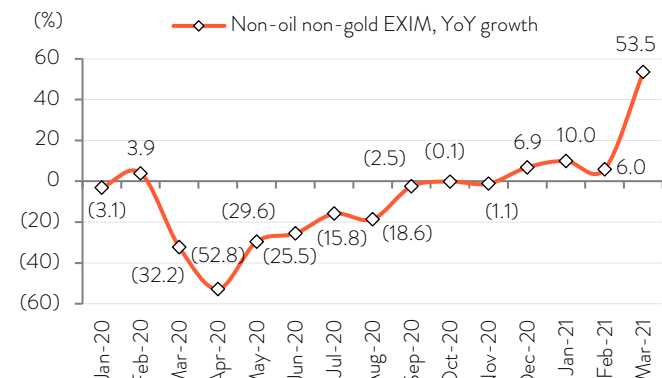
E-way bills and total cargo volumes at all-time highs in Mar'21

FIG 4 – GST E-WAY BILL GENERATION SCALED NEW HIGHS IN MAR'21


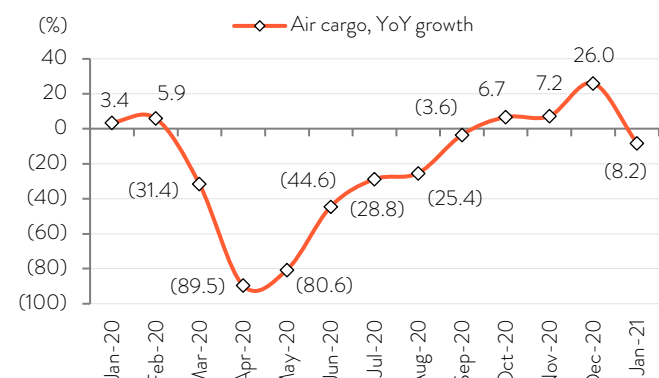
Source: GST website, BOBCAPS Research

FIG 5 – MAJOR PORT CARGO POSTED MARKED IMPROVEMENT


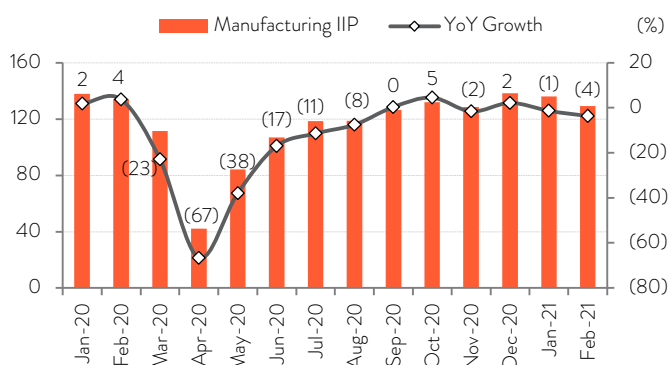
Source: Indian Port Association, BOBCAPS Research

FIG 6 – CORE EXIM TRADE RECOVERED IN LAST FOUR MONTHS OF FY21


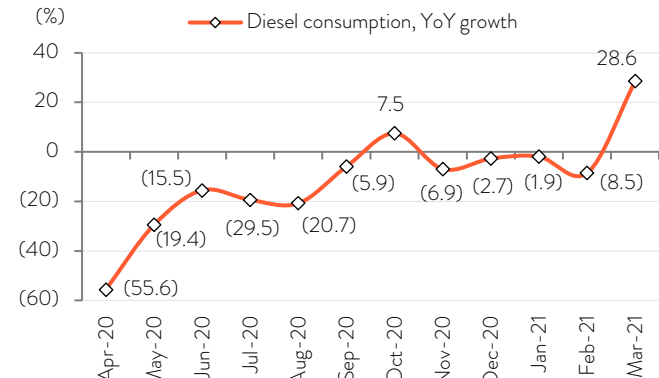
Source: Ministry of Commerce, BOBCAPS Research

FIG 7 – AIR CARGO GROWTH SURGED DURING OCT-DEC'20


Source: Directorate General of Civil Aviation, BOBCAPS Research

FIG 8 – MANUFACTURING IIP HAS IMPROVED FROM DEPTHS SEEN IN Q1FY21


Source: Company, BOBCAPS Research | Note: IIP indexed to 100

FIG 9 – DIESEL USE HAS FIRMED UP IN H2FY21; PERSONAL CONSUMPTION REMAINS A DRAG


Source: Company, BOBCAPS Research

Macro recovery bodes well for logistics sector

Economic revival and low base to support robust topline growth

The general revival in India's manufacturing economy in H2FY21 has lifted the topline growth of logistics companies as well. Following Covid-related containment measures, the median revenue growth of logistics players plummeted 47% YoY in Q1FY21 (Fig 7). Gradual easing of restrictions saw this decline ease to 14% in Q2, before a sharp bounce-back into positive territory at 14% growth in Q3. Aided by topline recovery and tight fixed-cost control, the median EBITDA margin recovered to 17.5% in Q3FY21 vs. 2.3% in Q1FY21.

With economic momentum sustaining in Q4FY21 and a benign base, we expect average revenue growth of our logistics universe to rise to 22% YoY for the quarter, along with a healthy EBITDA margin of 15%. We forecast robust revenue growth in FY22 as well, in line with the anticipated rebound in GDP.

FIG 10 – Q3 MARKED A SHARP IMPROVEMENT IN MEDIAN REVENUE & EBITDA GROWTH OF LOGISTICS PLAYERS

(%)	Revenue – YoY growth					EBITDA Margin				
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21E	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21E
Blue Dart Express*	(7.1)	(47.2)	8.0	20.9	NA	12.7	(10.2)	26.4	24.3	NA
Container Corp	(10.4)	(27.4)	(13.6)	14.8	23.9	30.2	13.4	20.8	21.2	28.3
Gateway Distriparks*	149.4	(31.5)	(19.2)	5.0	NA	21.5	27.6	24.9	26.3	NA
Mahindra Logistics	(20.0)	(54.3)	(2.3)	15.3	21.7	4.7	(0.5)	4.5	5.1	6.3
TCI Express	(10.5)	(65.4)	(21.0)	(2.2)	11.3	11.2	2.3	15.3	17.3	14.9
Transport Corp	(10.1)	(38.5)	1.8	14.3	23.1	8.8	7.5	8.9	9.9	9.5
VRL Logistics	(2.9)	(70.3)	(16.1)	1.1	15.1	11.4	(21.2)	19.8	17.5	15.3
Median	(10.1)	(47.2)	(13.6)	14.3	21.7	11.4	2.3	19.8	17.5	14.9

Source: Company, BOBCAPS Research | *Not under coverage

Fresh pandemic wave a potential risk to recovery

Over the past month, a fresh wave of Covid-19 infections has hit a number of states, led by Maharashtra (13.7% of India's GDP), Karnataka (8%), Gujarat (7.8%), Rajasthan (4.9%), Tamil Nadu (8.5%), Madhya Pradesh (4.2%), and Punjab (2.7%). States have adopted various containment measures, including restrictions on truck movement for certain non-essential commodities. Accordingly, the Google mobility index shows a drop-in activity across segments, especially for discretionary categories.

“Both clients and fleet operators are better prepared for Covid disruptions now vs. a year ago” – leading FTL player

Though the second wave poses a threat to the seamless economic recovery observed over the past couple of quarters, our industry interactions suggest that the fresh restrictions will have a less disruptive impact on logistics activities than that observed during the initial outbreak in Q1FY21.

During our discussions, a leading full-truck-load (FTL) operator suggested that disruptions to truck movements in the badly hit state of Maharashtra are currently much lesser than last year – in his view, manufacturers and logistics companies are now far better prepared with contingency plans for alternative modes of transport (such as rail vs. road), building on the learnings from the first wave of the pandemic. Another mid-sized fleet operator stated that driver and truck availability – two key hindrances during the initial outbreak – were not a constraint at present.

We pare FY22-FY23 forecasts to bake in risks from the second Covid wave

The vaccination programme may also mitigate the second Covid wave, and we expect the subsequent economic recovery to be strong, akin to that seen in the past year. That said, we believe charting out the future course of the pandemic is a futile exercise – we, therefore, bake in the potential risk by paring FY22-FY23 forecasts on revenue (by 2-3%) and earnings (by 2-8%) for our logistics coverage.

MLL is the only exception where we raise estimates to factor in recent deal wins and its ability to ride evolving industry demand trends. We now pencil in a median revenue/PAT CAGR of 17%/36% for our coverage over FY21-FY23.

FIG 11 – REVISED ESTIMATES

Company	FY22E Revenue (Rs mn)			FY23E Revenue (Rs mn)			FY22E EPS (Rs)			FY23E EPS (Rs)		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
CCRI	75,734	75,734	-	87,880	87,880	-	21.3	21.3	-	25.3	25.3	-
MLL	40,052	41,024	2.4	46,440	47,304	1.9	12.6	13.7	8.3	16.7	17.9	7.0
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Source: BOBCAPS Research

FIG 12 – REVISED TARGET PRICES

Company	Valuation methodology	Change in multiple	New TP (Rs)	Old TP (Rs)
CCRI	20x FY23E P/E	Raised to 20x from 17x	505	425
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VRLL	22x FY23E P/E	No change	285	305

Source: BOBCAPS Research

Key logistics themes over five years

MLL, TRPC and VRLL to be key beneficiaries of emerging industry trends

To assess the key themes expected to shape the Indian logistics industry in a post-pandemic world, we interacted with several large, pan-India logistics players as well as smaller, regional fleet operators. Our discussions yielded four key trends that have been hastened by the pandemic and will play a key role in evolution of the industry over the next five years – (1) demand for multimodal transport, (2) higher outsourcing of logistics, (3) swifter technology adoption, and (4) consolidation in the trucking industry. While all organised logistics companies are set to benefit from these trends, we see MLL to be the key beneficiary of multiple trends.

FIG 13 – INDIA'S LOGISTICS INDUSTRY TRENDS FOR THE NEXT FIVE YEARS

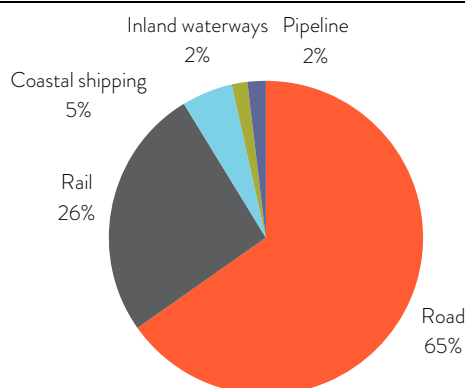
Trend	Details	Companies likely to benefit
Demand for multimodal transport	<ul style="list-style-type: none"> Pandemic brought out the need for an optimal and balanced modal mix between road, rail and other alternative modes Commissioning of the DFC to help IR reach its targeted rail modal share of 45% in 2030, reducing dependence on road 	CCRI, GDPL, TRPC, MLL
Higher outsourcing of logistics	<ul style="list-style-type: none"> Pandemic exposed the frailties of manufacturer supply chains, raising demand for 3PL services 	MLL, TRPC supply chain
Swifter technology adoption	<ul style="list-style-type: none"> Adoption of technology has gathered pace among both logistics service providers and manufacturers in the pandemic era – a trend likely to continue 	All organised players
Consolidation in trucking industry	<ul style="list-style-type: none"> Low utilisation due to economic slowdown, coupled with profitability pressure stemming from higher fuel costs, is forcing some small truckers to suspend operations 	VRLL

Source: Company, BOBCAPS Research

#1 Demand for multimodal transport

Covid-related supply chain disruptions have led to increased adoption of multimodal transportation. With roadways, the predominant mode of transport carrying ~65% of total tonnage, reeling under supply challenges and movement restrictions, manufacturers have started looking at alternative modes of transport, mainly rail. We believe this trend will continue as companies scout for an optimal, cost-efficient transport mix of road, rail, coastal seaways and airways.

FIG 14 – INDIA'S MODAL MIX HEAVILY TILTED TOWARDS ROAD, FY18



Source: Indian Railways, BOBCAPS Research

Covid-led movement curbs hit road transport, raising demand for other modes

Pandemic a blessing in disguise for railways

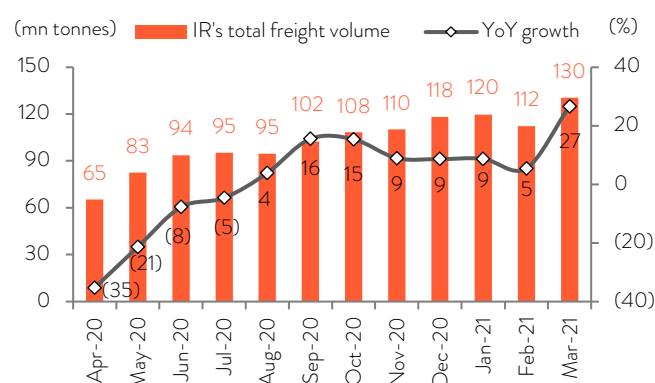
Sharp rise in rail segment's market share in EXIM container movement for FY21

Through a series of concerted efforts, the Indian Railways (IR) has capitalised on the trucking supply challenges induced by the pandemic. Despite lower overall freight availability, the IR's originating freight increased 2% YoY in FY21 to scale new highs of 1.2bn tonnes. This feat is even more impressive considering the 21% YoY decline in originating tonnage during the first quarter. IR's container cargo – the key category for listed container rail operators – also grew 3.3% in FY21, with the EXIM segment up 1.9% vs. a 2% decline in container cargo at major ports, implying a sharp rise in rail segment's market share in EXIM container movement.

The temporary halt on passenger trains last year meant IR's freight trains could utilise the entire rail network, a scenario akin to a dedicated freight corridor. This enabled freight trains to run faster – at 44 km/hour on average in FY21 vs. 23 km/hour in FY20 – and offer better service to customers. This also coincided with acute supply issues faced by road transport in the form of lack of driver availability and movement restrictions. Consequently, many companies which traditionally used road as the main transport mode shifted to rail.

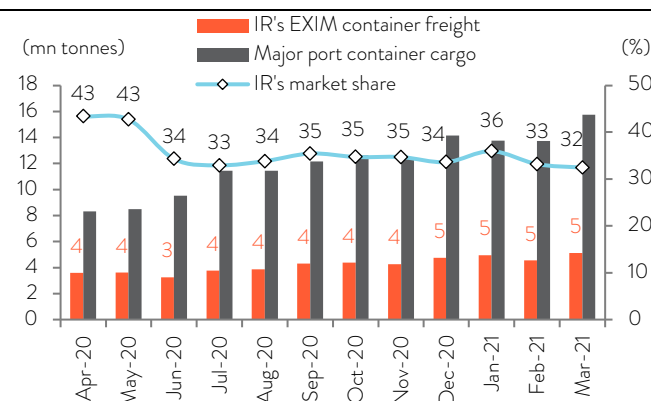
Non-traditional commodities such as automobiles, sand, sugar, chemical salt, cotton, stone and fly ash boosted IR's freight volumes, as evident from the 22% YoY growth in the 'other goods' category. The IR also took several steps to bolster volumes, including long-haul discounts to commodities such as coal, iron ore, steel and limestone, and short-lead discounts for a majority of commodities. It also withdrew its busy season surcharge of 15% and offered a 5% discount on laden containers and a 25% discount on empty containers.

FIG 15 – IR CARRIED HIGHEST EVER FREIGHT CARGO IN FY21 DESPITE TOUGH EXTERNAL CONDITIONS



Source: Indian Railways, BOBCAPS Research

FIG 16 – RAIL SHARE IN MAJOR PORT CONTAINER CARGO STABLE AFTER TRUCK SUPPLY STABILISED



Source: Indian Railways, BOBCAPS Research

We see two long-lasting benefits for the IR – (1) some new clients are likely to continue using rail as one of their key transport modes to derisk their supply chain from any future shocks to road, and (2) IR and container train operators can carry over the lessons learnt from this pandemic to operations on the western (WDFC) and eastern dedicated freight corridors (EDFC) once these become operational.

DFC – a paradigm-shifting development

DFC key to IR's target of nearly doubling modal share to 45% by 2030

Commissioning of the DFC is likely to usher in a new era for the container rail industry in India. We believe the DFC will enhance railways' competitiveness against roadways and enable the IR and container train operators (such as CCRI, Gateway Distriparks) to offer time-guaranteed services to clients, eventually translating into modal share gains for rail. Additionally, we envisage several other advantages such as (1) higher double stacking, (2) faster speeds, and (3) stabilisation of lead distance. In our view, the DFC forms the cornerstone of the IR's target of cornering 45% modal share by 2030.

As per the Dedicated Freight Corridor Corp's (DFCCIL) Dec'20 estimates, the Rewari-Palanpur stretch – the first leg connecting the Gujarat ports – was to become operational by Mar'21. However, industry sources expect it to be commissioned by Dec'21. Full commissioning of the WDFC may also be delayed beyond the Jun'22 target – we expect a Dec'22 completion date.

FIG 17 – DFCs TO BOLSTER RAIL COMPETITIVENESS



Source: DFCCIL, BOBCAPS Research

FIG 18 – DFC COMMISSIONING TARGET

Section	Length (km)	Commissioning target	Section	Length (km)	Commissioning target
Western Dedicated Freight Corridor (WDFC)			Eastern Dedicated Freight Corridor (EDFC)		
Dadri - Rewari	127	Mar-22	Khurja-Bhaupur	351	Commissioned
Rewari - Madar	306	Commissioned	Bhaupur-DDU	402	Jun-22
Madar - Marwar	143	Mar-21 (delayed)	DDU-Ganjkhwaja	37	Dec-21
Madar - Palanpur	204	Mar-21 (delayed)	Ganjkhwaja-Chirailpathu	100	Mar-21
Palanpur - Makarpura	289	Mar-22	Khurja-Dadri	46	Jun-21
Makarpura- Sachin	135	Jun-22	Pilkhani-Ludhiana	179	Jun-22
Sachin - Vaitarna	186	Jun-22	Khurja-Pilkhani	222	Jun-22
Vaitarna- JNPT	101	Jun-22			

Source: DFCCIL, BOBCAPS Research

Share of alternative modes to rise

Increasing customer acceptance of rail as a viable mode of transport for both short- and long-haul cargo, coupled with imminent completion of the DFC, makes the IR's target of reaching ~45% of modal share in FY31, up from 26% in FY18, quite credible. We note that this forecast released on Dec'20 does not include the additional modal shift from road post DFC commissioning – thus, the actual modal share could be higher than targeted. The other modes – inland waterways and coastal shipping – are also likely to grow given the government's focus on infrastructure development through initiatives such as the Sagarmala programme.

#2 Higher outsourcing of logistics

Pandemic exposed frailties in manufacturers' supply chain, raising demand for 3PL services

The pandemic generated complex supply chain challenges for manufacturers, exposing a multitude of frailties. As production scales back to pre-Covid levels, companies have started to focus on core business activities and are preferring to outsource non-core activities such as transportation and warehousing to third-party logistics (3PL) companies.

A case in point is the Rs 10bn logistics outsourcing and optimisation contract between MLL and Bajaj Electricals – one of the largest such deals in the space. Flipkart has also entered an agreement with MLL to roll out electric vehicles for their transport operations – one of the few 4PL (where a 3PL company also provides consultancy services) deals to have taken place in India.

India's 3PL industry remains nascent – globally, a vast majority of Fortune 500 companies use 3PL services vis-à-vis a handful in India. As economic growth gains momentum, we believe the trend of outsourcing logistics activities to dedicated players will only gather pace and forecast a 15% revenue CAGR for the Indian 3PL industry over the next five years.

FIG 19 – MLL'S STRONG CLIENT ADDITION INDICATES GROWING DEMAND FOR 3PL SERVICES/LOGISTICS OUTSOURCING

Quarter	New clients added
Q3FY21	▪ End-to-end logistics solutions for Bajaj Electricals
	▪ North India distribution for a large pharma company
	▪ Warehouse management services for a leading defence manufacturer
	▪ Grocery fulfilment centre for one of the largest e-commerce companies
	▪ Distribution solution for a prominent food distribution marketplace
	▪ Exclusive distributor of a European auto OEM
Q2FY21	▪ Glass company
	▪ Capital goods and electrical goods company in western India
	▪ Capital goods manufacturer in Kolkata
	▪ Power tools manufacturer
Q1FY21	▪ Leading independent engine manufacturer
	▪ International elevator manufacturer
	▪ Fuel systems manufacturer

Source: Company, BOBCAPS Research

#3 Swifter technology adoption

Though the use of technology by logistics players has been on the rise for the past few years, the onset of Covid-19 provided a significant fillip to the adoption of new digital solutions, data sciences, analytics and automation. In a post-pandemic world, manufacturers will look to enhance the predictability of their supply chain and hence logistics service providers have to offer systems that allow management of the overall supply chain.

Logistics players focusing on complete systems overhaul to meet emerging demand

Our discussions with industry participants indicate that logistics players are taking several measures to enhance efficiency and to offer tech-enabled solutions to customers – companies are focused on upgrading systems, enabling automatic alerts and tracking, improving navigation abilities, ensuring real-time tracking of truck locations, and in-route optimisation. The compulsory adoption of 'Fast Tags' that work on RFID technology will have multiple applications besides the current use of automated toll payments. Data generated via RFID can be used for better route planning by companies and to provide more transparency to customers on the status of their goods. IR is planning to add RFID tags to all its freight wagons.

Clients have also become more receptive of technology during the pandemic. A 3PL player mentioned that prior to the pandemic, customers typically requested a physical copy before processing payments despite them raising a digital invoice. However, over the past year, clients have been accepting digital invoices and proof-of-delivery.

Government authorities are also leveraging technology to ensure higher compliance. As per this [media article](#), the government is working on a 'Real-time analysis report on RFID' which will help it monitor trucks that are moving without proper e-way bills. We believe these technological developments will help formalise the logistics sector, benefitting organised sector incumbents.

#4 Consolidation in the trucking industry

Our interactions with road transporters suggest that smaller truckers remain plagued by profit and liquidity pressures. Though overall freight availability has picked up with the gradual easing of restrictions, volumes are yet to normalise in some categories such as industrial goods, suppressing utilisation for smaller truckers.

**Lower utilisation, high costs
and strict financing spell
trouble for minor truckers**

Moreover, the freight rate hike of 15-20% in H2FY21 has not sufficed to compensate for the spike in fuel cost (40-45% of total operating expenses), further adding to truckers' woes. One pan-India FTL company also mentioned that some lenders are becoming stricter with smaller fleet owners (up to 5 trucks) which may compel the latter to shut shop. The fresh set of containment measures across several Indian states over the past few weeks could further dent the business prospects of small operators.

If a large number of small truck owners are forced to liquidate, truck supply could come under pressure in the short run until new capacity is added. With manufacturing activity scaling back to normal levels, this shortage is likely to help organised, asset-heavy truck operators gain market share as they offer better asset visibility to customers. We expect VRLL to be a key beneficiary of this short-term trend.



SELL

TP: Rs 505 | ▼ 8%

**CONTAINER CORP OF
INDIA**

Logistics

22 April 2021

Volume ramp-up paves way for strong FY22

Container Corp's (CCRI) Q4FY21 provisional volumes grew 12.5% YoY, capping the FY21 decline at just 3%. EXIM trade recovery and completion of the WDFC first phase lay the path for a strong 15%/17% volume/revenue CAGR over FY21-FY23. The LLF dispute is likely to be resolved soon, per media reports, and could be set lower than IR's initial claim of 6% land value. We raise our target P/E to 20x (vs. 17x) on volume ramp-up and revise our Mar'22 TP to Rs 505 (vs. Rs 425). Retain SELL post the recent stock rally and pending clarity on the final LLF.

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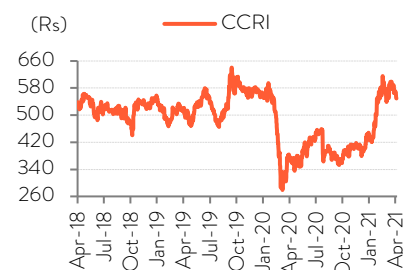
Volume recovery encouraging: After declining 15% YoY in H1FY21, CCRI's volumes rebounded in H2 to grow 9%, closing FY21 with a mere 3% YoY fall. This was catalysed by the rail segment's share gain, as lingering supply issues continued to plague trucking. We expect CCRI to log a 15% volume CAGR over FY21-FY23 led by higher EXIM volumes and partial DFC commissioning.

Ticker/Price	CCRI IN/Rs 549
Market cap	US\$ 4.4bn
Shares o/s	609mn
3M ADV	US\$ 27.5mn
52wk high/low	Rs 644/Rs 326
Promoter/FPI/DII	55%/23%/16%

Source: NSE

LLF resolution likely to be favourable: Media reports suggest the Indian Railways (IR) is likely to halve the land license fee (LLF) for CCRI to 3%, vs. 6% announced earlier, to fast-track the disinvestment process as a higher LLF would dilute the strategic value of the asset. One [media report](#) claims that CCRI has paid Rs 6bn in LLF in FY21 vs. Rs 4.5bn budgeted, still well below the ~Rs 13bn demanded earlier by the IR. Lower LLF would serve as a boost for CCRI and also speed up the privatisation process, though we await final clarity.

STOCK PERFORMANCE



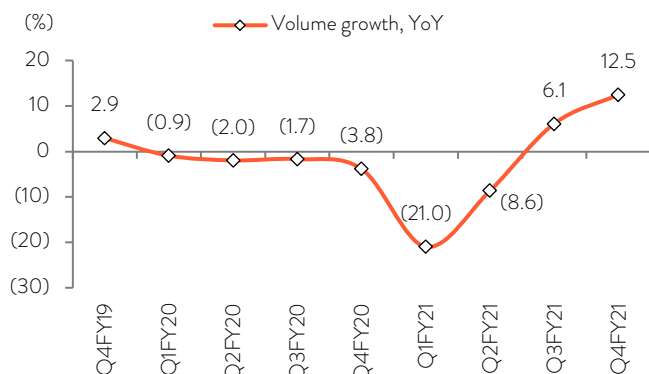
Source: NSE

DFC commissioning, privatisation key triggers: With the largest ICD network, vast scale and robust rolling stock, we expect CCRI to be the prime beneficiary of WDFC phase-1 commissioning, likely in Q3FY22. Also, it is a good strategic fit for many companies and hence should garner keen interest for privatisation. Given the LLF overhang and current hefty valuations at 22x FY23E P/E, we retain SELL.

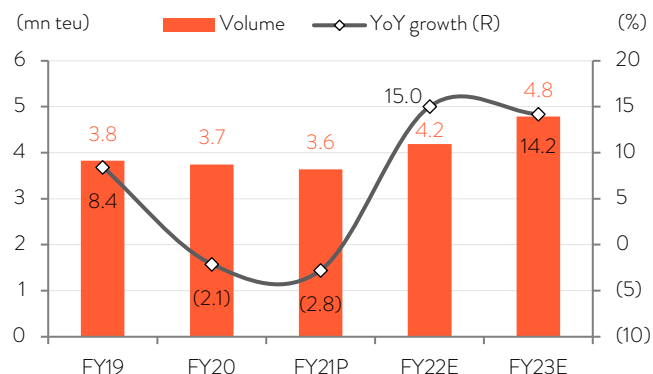
KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	65,098	64,738	63,888	75,734	87,880
EBITDA (Rs mn)	14,078	16,749	13,938	19,632	23,178
Adj. net profit (Rs mn)	12,154	12,574	8,656	12,982	15,421
Adj. EPS (Rs)	19.9	20.6	14.2	21.3	25.3
Adj. EPS growth (%)	14.5	3.5	(31.2)	50.0	18.8
Adj. ROAE (%)	12.3	12.3	8.3	11.7	12.9
Adj. P/E (x)	27.5	26.6	38.7	25.8	21.7
EV/EBITDA (x)	22.5	19.5	23.4	15.8	13.2

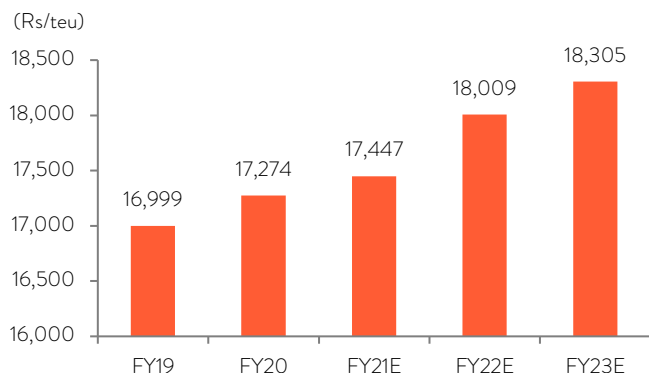
Source: Company, BOBCAPS Research

FIG 1 – VOLUMES RECOVERED SHARPLY IN H2FY21 AFTER A PROLONGED SLOWDOWN


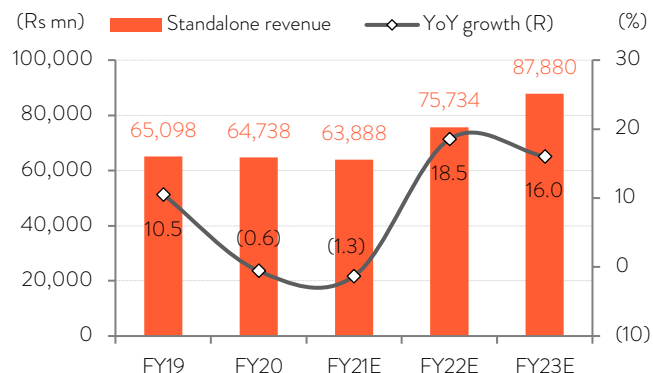
Source: Company, BOBCAPS Research

FIG 2 – PARTIAL DFC COMMISSIONING TO AID 15% VOLUME CAGR OVER FY21P-FY23E


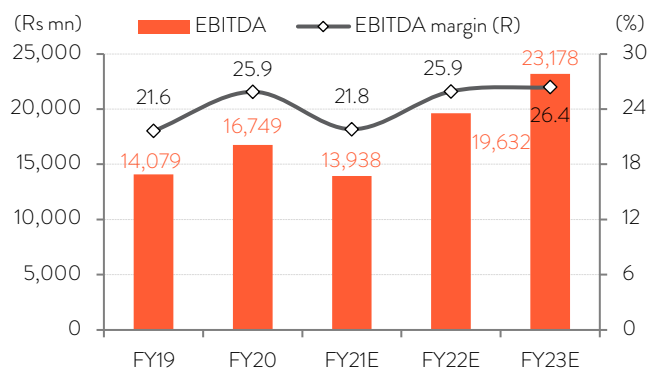
Source: Company, BOBCAPS Research

FIG 3 – REALISATION FORECAST TO GROW AT A STEADY 2%...


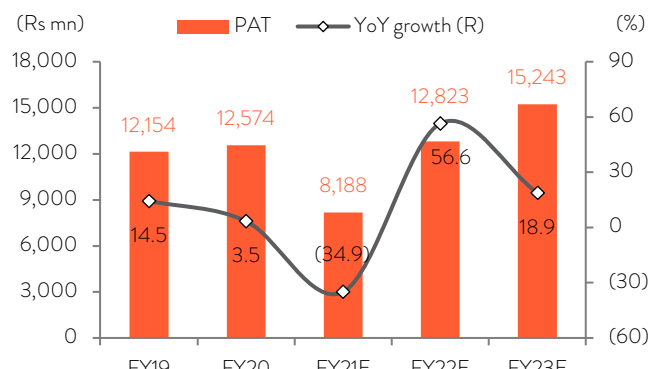
Source: Company, BOBCAPS Research

FIG 4 – ...TRANSLATING INTO 17% REVENUE CAGR


Source: Company, BOBCAPS Research

FIG 5 – EBITDA MARGIN EXPECTED TO EXPAND 460BPS DRIVEN BY EFFICIENCY GAINS


Source: Company, BOBCAPS Research

FIG 6 – PAT TO REGISTER A STRONG 36% CAGR


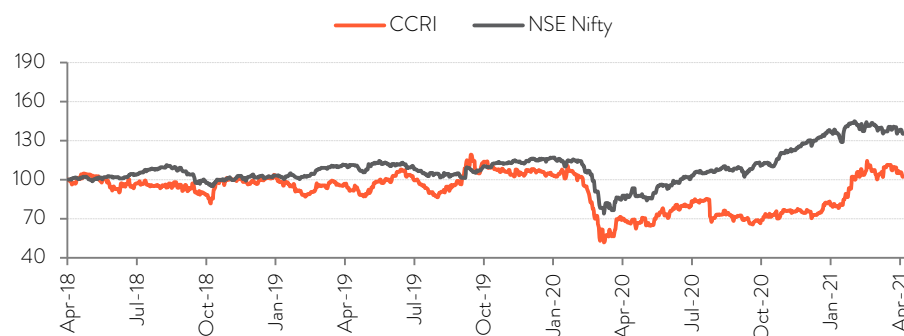
Source: Company, BOBCAPS Research

Valuation methodology

Though Q4FY21 provisional volumes are better than estimated, we are not revising our FY22/FY23 earnings forecast given potential disruptions from Covid-19. In light of the volume rebound and the likelihood of a favorable LLF policy, we raise our target one-year forward P/E multiple from 17x to 20x and revise our Mar'22 target price to Rs 505 (vs. Rs 425).

We continue to factor in LLF at Rs 4.5bn for FY21E – in line with CCRI's assessment but below IR's claims. Clarity on the new LLF policy is expected soon and would not only alleviate the uncertainty around the event but also bolster CCRI's imminent privatisation prospects by enhancing its appeal to a strategic buyer. This event remains a key monitorable and we will revisit our target multiple and rating once clarity emerges. Meanwhile, we retain SELL.

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our estimates are:

- sharper-than-expected recovery in volumes and/or realisation,
- favourable final LLF policy, and
- above-expected operating margin achieved through cost control measures.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	65,098	64,738	63,888	75,734	87,880
EBITDA	14,078	16,749	13,938	19,632	23,178
Depreciation	4,246	5,130	5,260	6,156	6,972
EBIT	9,833	11,619	8,679	13,476	16,205
Net interest income/(expenses)	(7)	(361)	(340)	0	0
Other income/(expenses)	7,064	2,797	3,265	3,880	4,411
Exceptional items	0	0	0	0	0
EBT	16,889	14,056	11,604	17,355	20,616
Income taxes	(4,735)	(1,482)	(2,947)	(4,374)	(5,195)
Extraordinary items	0	(8,816)	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	12,154	3,758	8,656	12,982	15,421
Adjustments	0	8,816	0	0	0
Adjusted net profit	12,154	12,574	8,656	12,982	15,421

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	3,504	1,553	1,436	1,647	1,918
Other current liabilities	9,241	9,539	9,414	11,160	12,949
Provisions	719	692	724	858	995
Debt funds	7,007	0	0	0	0
Other liabilities	303	3,236	3,236	3,236	3,236
Equity capital	3,047	3,047	3,047	3,047	3,047
Reserves & surplus	1,00,632	97,601	1,04,093	1,11,882	1,21,135
Shareholders' fund	1,03,679	1,00,647	1,07,140	1,14,929	1,24,181
Total liabilities and equities	1,24,453	1,15,668	1,21,949	1,31,829	1,43,280
Cash and cash eq.	1,704	21,686	27,713	27,885	30,346
Accounts receivables	884	1,591	1,750	2,075	2,408
Inventories	233	261	257	305	354
Other current assets	44,491	5,402	5,374	6,371	7,393
Investments	14,029	14,441	14,441	14,441	14,441
Net fixed assets	41,879	49,656	58,772	64,615	69,643
CWIP	6,247	9,375	0	0	0
Intangible assets	68	38	38	38	38
Deferred tax assets, net	(1,616)	145	145	145	145
Other assets	16,534	13,073	13,458	15,954	18,512
Total assets	1,24,453	1,15,668	1,21,949	1,31,829	1,43,280

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	16,400	17,704	13,916	19,138	22,393
Interest expenses	7	361	340	0	0
Non-cash adjustments	(117)	(1,761)	0	0	0
Changes in working capital	(29,775)	40,134	(724)	(1,773)	(1,764)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	(13,485)	56,438	13,531	17,365	20,629
Capital expenditures	(9,245)	(16,005)	(5,000)	(12,000)	(12,000)
Change in investments	(139)	(412)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(9,384)	(16,417)	(5,000)	(12,000)	(12,000)
Equities issued/Others	609	0	0	0	0
Debt raised/repaid	7,007	(7,007)	0	0	0
Interest expenses	(7)	(361)	(340)	0	0
Dividends paid	(6,280)	(2,281)	(2,164)	(5,193)	(6,168)
Other financing cash flows	3,428	(10,392)	0	0	0
Cash flow from financing	4,756	(20,040)	(2,504)	(5,193)	(6,168)
Changes in cash and cash eq.	(18,113)	19,982	6,027	172	2,461
Closing cash and cash eq.	1,704	21,686	27,713	27,885	30,346

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.9	6.2	14.2	21.3	25.3
Adjusted EPS	19.9	20.6	14.2	21.3	25.3
Dividend per share	10.3	3.7	3.6	8.5	10.1
Book value per share	170.2	165.2	175.8	188.6	203.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.9	5.1	5.1	4.1	3.5
EV/EBITDA	22.5	19.5	23.4	15.8	13.2
Adjusted P/E	27.5	26.6	38.7	25.8	21.7
P/BV	3.2	3.3	3.1	2.9	2.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	89.5	74.6	74.8	74.8
Interest burden (PBT/EBIT)	171.8	121.0	133.7	128.8	127.2
EBIT margin (EBIT/Revenue)	15.1	17.9	13.6	17.8	18.4
Asset turnover (Revenue/Avg TA)	62.2	59.6	59.4	66.0	71.3
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	12.3	12.3	8.3	11.7	12.9

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	10.5	(0.6)	(1.3)	18.5	16.0
EBITDA	16.7	19.0	(16.8)	40.8	18.1
Adjusted EPS	14.5	3.5	(31.2)	50.0	18.8
Profitability & Return ratios (%)					
EBITDA margin	21.6	25.9	21.8	25.9	26.4
EBIT margin	15.1	17.9	13.6	17.8	18.4
Adjusted profit margin	18.7	19.4	13.5	17.1	17.5
Adjusted ROAE	12.3	12.3	8.3	11.7	12.9
ROCE	9.4	10.7	8.1	11.8	13.2
Working capital days (days)					
Receivables	5	9	10	10	10
Inventory	1	1	1	1	1
Payables	20	9	8	8	8
Ratios (x)					
Gross asset turnover	1.3	1.0	0.8	0.8	0.9
Current ratio	3.7	2.5	3.1	2.8	2.6
Net interest coverage ratio	NM	NM	NM	NM	NM
Adjusted debt/equity	0.1	(0.2)	(0.3)	(0.2)	(0.2)

Source: Company, BOBCAPS Research

BUY

TP: Rs 630 | ▲ 21%

MAHINDRA LOGISTICS

Logistics

22 April 2021

Stars are aligning

After a few challenging quarters, Mahindra Logistics (MLL) has turned a corner in Q3FY21. Its key auto vertical appears to be in the initial phase of a cyclical upturn and we expect the non-auto vertical to maintain its growth trajectory led by client adds and wallet share gains. As both growth engines fire, we project a 20% topline CAGR over FY21-FY23. New deal wins are likely to more than offset the lockdown impact – we thus raise FY22/FY23 EPS by 8%/7% and increase our target multiple to 35x (vs. 33x). Our Mar'22 TP rises to Rs 630 (vs. Rs 555). Maintain BUY.

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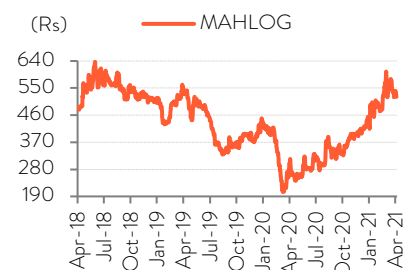
Cyclical recovery in auto bodes well: After declining for several quarters, MLL's auto segment grew 20% YoY in Q3FY21 as the anchor client's auto and tractor volumes recovered. The cyclical upturn in auto sales augurs well for the company as auto remains its key industry vertical at ~60% revenue share. We expect the demand traction to continue as end-client volumes ramp up – accordingly, we build in 23%/11% growth in the company's auto vertical for FY22/FY23.

Ticker/Price	MAHLOG IN/Rs 520
Market cap	US\$ 492.5mn
Shares o/s	71mn
3M ADV	US\$ 1.0mn
52wk high/low	Rs 615/Rs 240
Promoter/FPI/DII	58%/20%/8%

Source: NSE

Non-auto juggernaut rolls on: Client wins and wallet share gains in existing accounts propelled a 17%/30% YoY rise in non-auto revenue in Q2/Q3FY21. MLL's deal-win juggernaut rolled on in Q4 too – the company signed a logistics outsourcing contract with Bajaj Electricals carrying revenue potential of Rs 10bn over five years (~15% of FY21 non-auto), and partnered with Flipkart for EV deployment. Improving client/sector credentials are likely to have a snowball effect, aiding new client wins in the same industries and driving the topline.

STOCK PERFORMANCE



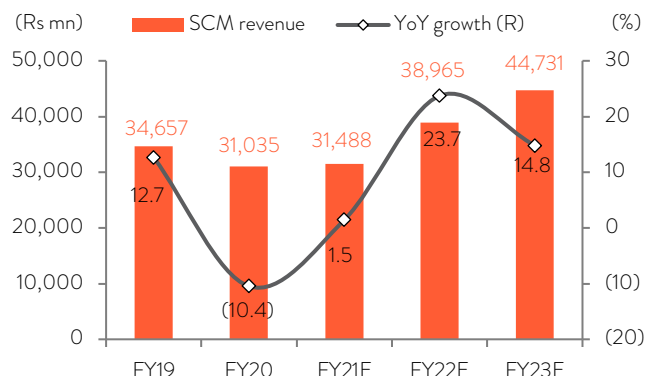
Source: NSE

Hallmarks of a winner: Our analysis of the top global 3PL players reveals two common ingredients for success – integrated service offerings and technology. In India, MLL is the most proactive in these areas, with integrated, new-age logistics solutions on offer following its expansion into freight forwarding, express logistics and cross-border solutions, besides a relentless focus on technology.

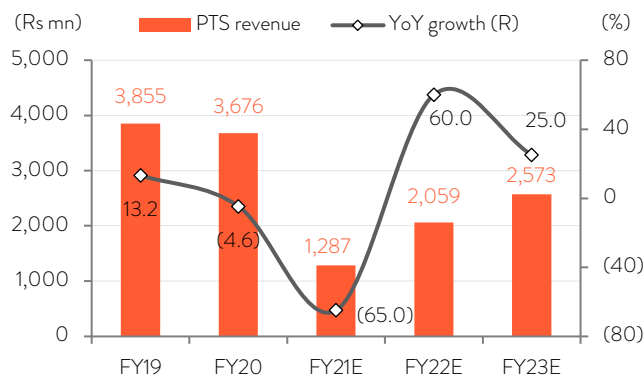
KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	32,774	41,024	47,304
EBITDA (Rs mn)	1,512	1,583	1,501	2,393	2,913
Adj. net profit (Rs mn)	856	551	424	979	1,280
Adj. EPS (Rs)	12.0	7.7	5.9	13.7	17.9
Adj. EPS growth (%)	33.2	(35.7)	(23.0)	130.6	30.7
Adj. ROAE (%)	18.7	10.6	7.5	15.7	18.0
Adj. P/E (x)	43.4	67.5	87.7	38.0	29.1
EV/EBITDA (x)	24.1	22.9	24.2	15.4	12.7

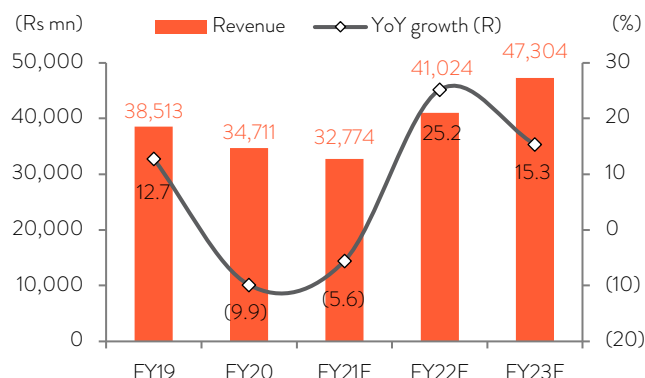
Source: Company, BOBCAPS Research

FIG 1 – CYCLICAL RECOVERY IN AUTO TO DRIVE 19% CAGR IN SCM SEGMENT OVER FY21E-FY23E


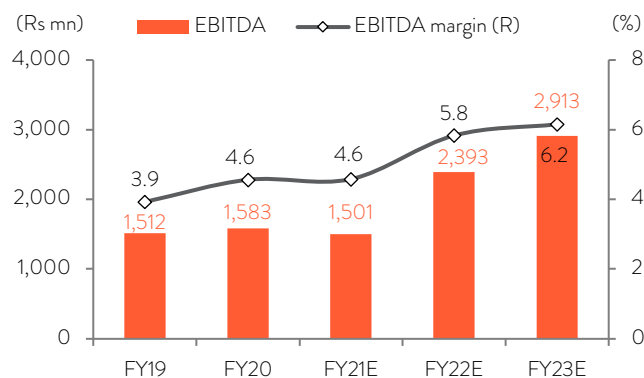
Source: Company, BOBCAPS Research | SCM – Supply chain management

FIG 2 – PTS RECOVERY TO BE MORE PROTRACTED WITH FY23E REVENUE LIKELY LOWER THAN FY20


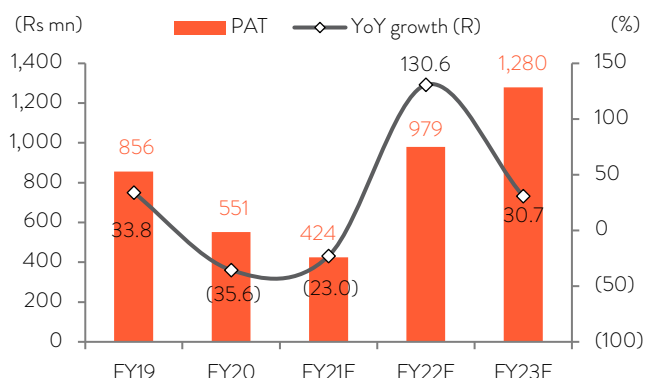
Source: Company, BOBCAPS Research | PTS – People transport solutions

FIG 3 – REVENUE CAGR OF 20% ESTIMATED OVER FY21E-FY23E


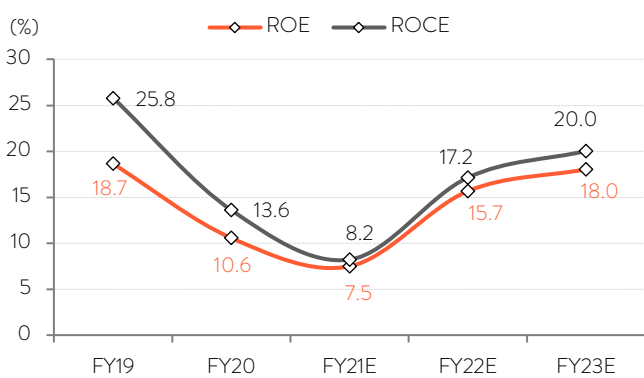
Source: Company, BOBCAPS Research

FIG 4 – EBITDA MARGIN FORECAST TO EXPAND 160BPS OVER FY21E-FY23E


Source: Company, BOBCAPS Research

FIG 5 – PAT ESTIMATED TO POST 74% CAGR OVER FY21E-FY23E OFF A LOW BASE


Source: Company, BOBCAPS Research

FIG 6 – ACCOUNTING STANDARD CHANGE AFFECTED RETURN RATIOS IN FY20


Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY22/FY23 revenue estimates for MLL by 2% each and accordingly our earnings projections by 8%/7%. Though we are pruning estimates for most of our logistics coverage to factor in the revenue impact of fresh state-specific Covid containment measures, MLL bucks the trend as its recent deal wins more than nullify the downside. For instance, its contract with Bajaj Electricals alone is worth ~Rs 2bn/year or ~5% of FY22 consolidated revenue.

Given the strong deal win traction and improving earnings growth outlook, we also raise our target P/E multiple to 35x FY23E EPS vs. 33x earlier. Consequently, our Mar'22 target price increases to Rs 630 from Rs 555. Retain BUY.

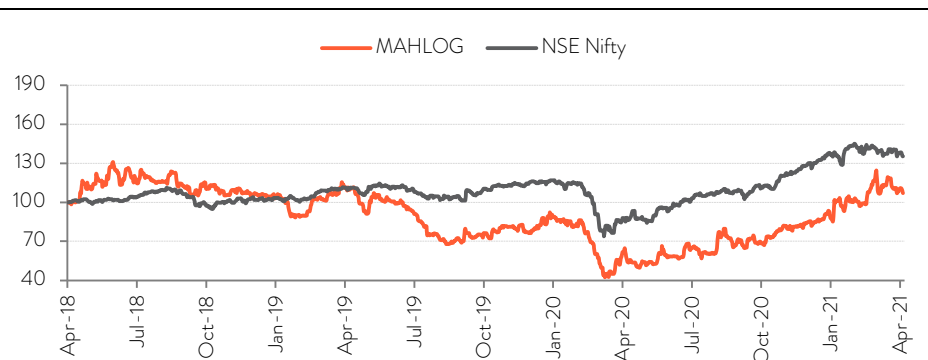
In the cyclical logistics space, MLL is one of the few companies that could gain from potential structural shifts in the industry. Akin to developed economies, we believe logistics activities in India will be largely outsourced in the years to come. This could translate into rapid growth in the country's nascent 3PL industry. Supply chain disruptions witnessed during Covid lockdowns will only hasten this outsourcing shift. With strong credentials across different industry verticals, we believe MLL is primed to gain from this trend.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	40,052	41,024	2.4	46,440	47,304	1.9
EBITDA	2,293	2,393	4.4	2,788	2,913	4.5
EBITDA margin (%)	5.7	5.8	11bps	6.0	6.2	15bps
PAT	904	979	8.3	1,197	1,280	7.0
EPS (Rs)	12.6	13.7	8.3	16.7	17.9	7.0

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- prolonged slowdown in key end-user industry verticals,
- high churn in non-anchor client segment, and
- slower shift than expected from in-house to outsourced logistics model.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	38,513	34,711	32,774	41,024	47,304
EBITDA	1,512	1,583	1,501	2,393	2,913
Depreciation	220	734	883	978	1,107
EBIT	1,293	848	618	1,415	1,806
Net interest income/(expenses)	(35)	(176)	(192)	(190)	(188)
Other income/(expenses)	76	140	149	93	93
Exceptional items	0	0	0	0	0
EBT	1,334	812	575	1,318	1,711
Income taxes	(468)	(257)	(147)	(336)	(428)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(10)	(3)	(3)	(3)	(3)
Reported net profit	856	551	424	979	1,280
Adjustments	0	0	0	0	0
Adjusted net profit	856	551	424	979	1,280

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	6,001	6,172	5,388	7,306	8,424
Other current liabilities	419	320	269	337	389
Provisions	215	213	201	252	290
Debt funds	377	359	359	0	0
Other liabilities	0	1,654	1,681	1,880	1,880
Equity capital	715	715	715	715	715
Reserves & surplus	4,325	4,785	5,210	5,944	6,904
Shareholders' fund	5,039	5,501	5,925	6,659	7,619
Total liabilities and equities	12,051	14,218	13,823	16,434	18,603
Cash and cash eq.	1,475	995	309	372	875
Accounts receivables	5,183	5,224	5,837	6,744	7,776
Inventories	0	0	0	0	0
Other current assets	3,180	3,645	3,442	4,308	4,967
Investments	38	31	31	31	31
Net fixed assets	660	918	1,394	1,434	1,411
CWIP	26	150	0	0	0
Intangible assets	53	54	54	54	54
Deferred tax assets, net	187	200	200	200	200
Other assets	1,250	3,001	2,557	3,292	3,288
Total assets	12,051	14,218	13,823	16,434	18,603

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,076	1,286	1,308	1,957	2,387
Interest expenses	35	36	43	22	0
Non-cash adjustments	(46)	(12)	0	0	0
Changes in working capital	(332)	(645)	(785)	(273)	(480)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	732	664	566	1,706	1,907
Capital expenditures	(294)	(639)	(700)	(500)	(500)
Change in investments	(38)	6	0	0	0
Other investing cash flows	0	(2,021)	(536)	(717)	(584)
Cash flow from investing	(332)	(2,654)	(1,236)	(1,217)	(1,084)
Equities issued/Others	3	1	0	0	0
Debt raised/repaid	31	(18)	0	(359)	0
Interest expenses	(35)	(36)	(43)	(22)	0
Dividends paid	(155)	(155)	0	(245)	(320)
Other financing cash flows	72	1,718	27	199	0
Cash flow from financing	(84)	1,510	(16)	(426)	(320)
Changes in cash and cash eq.	316	(480)	(686)	63	503
Closing cash and cash eq.	1,475	995	309	372	875

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	12.0	7.7	5.9	13.7	17.9
Adjusted EPS	12.0	7.7	5.9	13.7	17.9
Dividend per share	1.8	1.5	0.0	3.4	4.5
Book value per share	69.7	76.1	82.1	92.4	105.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.9	1.0	1.1	0.9	0.8
EV/EBITDA	24.1	22.9	24.2	15.4	12.7
Adjusted P/E	43.4	67.5	87.7	38.0	29.1
P/BV	7.5	6.8	6.3	5.6	4.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	64.2	67.9	73.8	74.2	74.8
Interest burden (PBT/EBIT)	103.2	95.7	93.1	93.2	94.7
EBIT margin (EBIT/Revenue)	3.4	2.4	1.9	3.4	3.8
Asset turnover (Revenue/Avg TA)	7.4	5.4	4.3	4.9	5.1
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.4	1.3	1.3
Adjusted ROAE	18.7	10.6	7.5	15.7	18.0

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	12.7	(9.9)	(5.6)	25.2	15.3
EBITDA	26.3	4.6	(5.2)	59.5	21.7
Adjusted EPS	33.2	(35.7)	(23.0)	130.6	30.7
Profitability & Return ratios (%)					
EBITDA margin	3.9	4.6	4.6	5.8	6.2
EBIT margin	3.4	2.4	1.9	3.4	3.8
Adjusted profit margin	2.2	1.6	1.3	2.4	2.7
Adjusted ROAE	18.7	10.6	7.5	15.7	18.0
ROCE	25.8	13.6	8.2	17.2	20.0
Working capital days (days)					
Receivables	49	55	65	60	60
Inventory	0	0	0	0	0
Payables	59	68	63	62	62
Ratios (x)					
Gross asset turnover	32.4	22.5	14.9	14.3	14.0
Current ratio	1.5	1.4	1.7	1.5	1.5
Net interest coverage ratio	37.2	4.8	3.2	7.5	9.6
Adjusted debt/equity	(0.2)	(0.1)	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research

BUY

TP: Rs 1,140 | ▲ 37%

TCI EXPRESS

Logistics

22 April 2021

Growth revival in sight; ROCE dilution a potential risk

TCI Express (TCIEXP) posted a stellar earnings CAGR of 33% over FY16-FY20 – the fastest in our logistics universe backed by 350bps of operating margin gains. Though margin headroom is limited after another 225bps gain in 9MFY21, we believe a growth rebound is imminent led by a strong business model and general revival in manufacturing. This should spur an estimated 30% earnings CAGR over FY21-FY23. Baking in Covid-led disruptions in Q1FY22, we trim our FY22/FY23 EPS by 2% each and lower our Mar'22 TP to Rs 1,140 (vs. Rs 1,165). Retain **BUY**.

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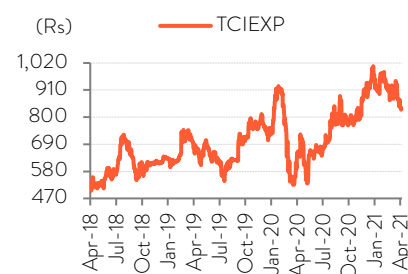
Cost control the saviour in FY21: Notwithstanding 29% YoY topline contraction in 9MFY21 (tonnage –31%, realisation +3%), TCIEXP's EBITDA/PAT declined only 15%/17%, as it eked out operating margin gains of 225bps YoY by dint of an asset-light model and a tight leash on overheads. After stellar gross/EBITDA margin expansion of 900bps/600bps over FY16-9MFY21, we bake in a lower 170bps rise in EBITDA margin (gross margin flat) over FY21-FY23, backed by operating leverage and rental savings from a shift to owned sorting centres.

Ticker/Price	TCIEXP IN/Rs 833
Market cap	US\$ 422.8mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 1,024/Rs 511
Promoter/FPI/DII	67%/2%/10%

Source: NSE

Growth rebound imminent: TCIEXP's 9MFY21 revenue decline of 29% was steeper than express peer BDE (–5%) and in line with Gati (–30%). However, its growth foundations – strong positioning in surface express delivery, wide client base and expanding network – remain untarnished, in our view. Q4 volumes have reached pre-Covid levels, per management, and we expect a strong FY22 growth recovery aided by a benign base and manufacturing revival.

STOCK PERFORMANCE



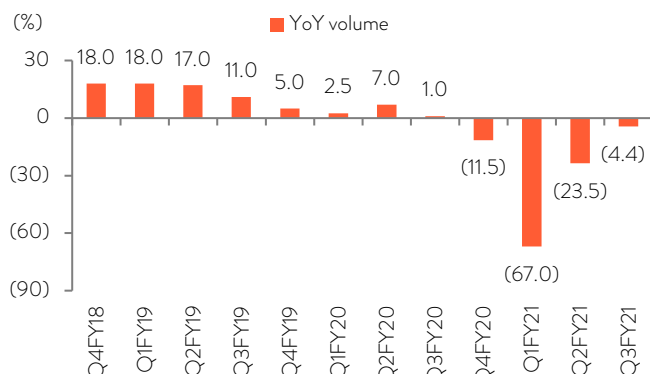
Source: NSE

ROCE dilution a potential risk: Over FY21-FY23, TCIEXP intends to spend Rs 2.5bn-3bn of capex (~1.5x FY20 gross block of Rs 2.5bn) to develop sorting centres in key locations. Though a shift to owned centres is likely to yield rent savings and efficiency gains, the company will need to generate ~1.5x of present EBIT to avoid ROCE dilution, which looks difficult in our view.

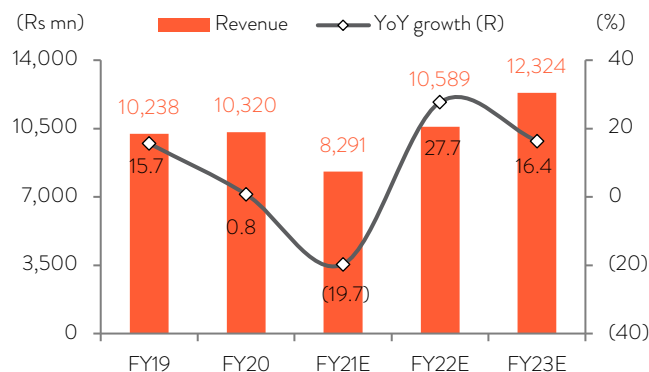
KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,238	10,320	8,291	10,589	12,324
EBITDA (Rs mn)	1,190	1,213	1,195	1,659	1,984
Adj. net profit (Rs mn)	728	891	869	1,221	1,460
Adj. EPS (Rs)	19.0	23.2	22.7	31.8	38.1
Adj. EPS growth (%)	24.7	22.3	(2.5)	40.5	19.5
Adj. ROAE (%)	30.7	29.5	23.1	26.3	25.5
Adj. P/E (x)	43.8	35.9	36.8	26.2	21.9
EV/EBITDA (x)	27.0	26.4	26.5	18.9	15.7

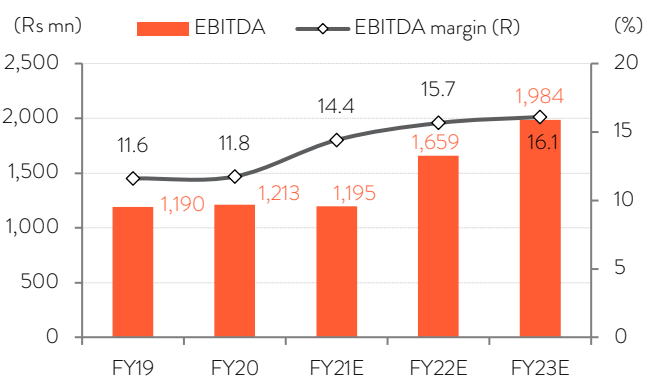
Source: Company, BOBCAPS Research

FIG 1 – VOLUME GROWTH HAS BEEN SLUGGISH FOR THE PAST EIGHT QUARTERS


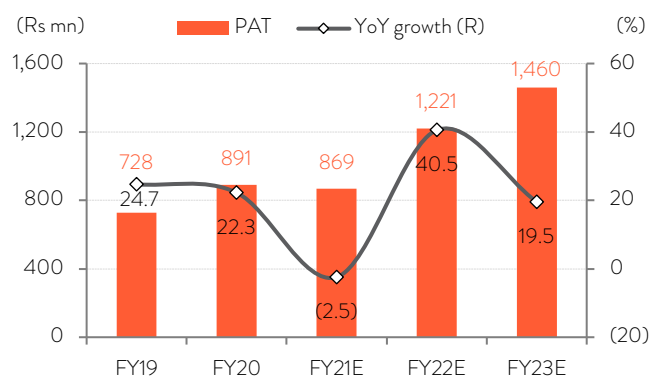
Source: Company, BOBCAPS Research

FIG 2 – EXPECT 22% REVENUE CAGR OVER FY21E-FY23E OFF A LOW BASE


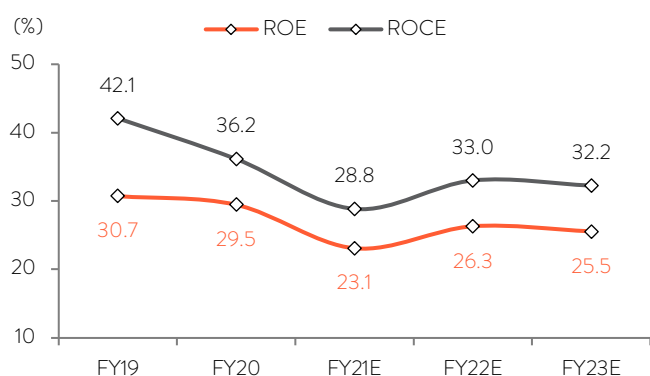
Source: Company, BOBCAPS Research

FIG 3 – EBITDA PROJECTED TO GROW AT 29% CAGR...


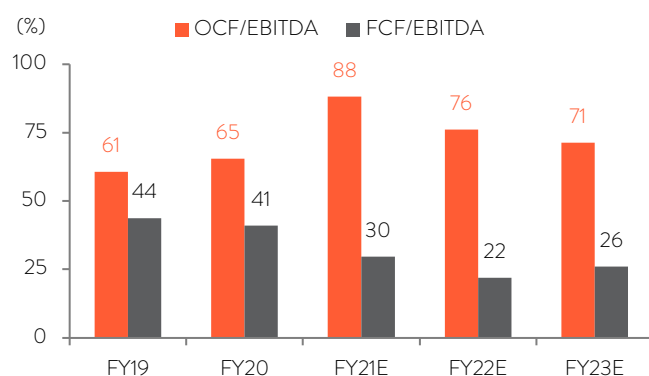
Source: Company, BOBCAPS Research

FIG 4 – ...WITH STRONG 30% PAT CAGR


Source: Company, BOBCAPS Research

FIG 5 – ASSET-LIGHT MODEL, OPERATIONAL SCALE TRANSLATES INTO ROBUST CAPITAL EFFICIENCY


Source: Company, BOBCAPS Research

FIG 6 – FCF CONVERSION TO MODERATE ON HIGHER PLANNED CAPEX


Source: Company, BOBCAPS Research

Valuation methodology

We do not expect the ongoing second Covid-19 wave to have as pronounced an impact on the logistics industry as the initial one due to the steady rollout of vaccines and higher level of preparedness among both manufacturers and logistics service providers. However, government measures to curb the outbreak may have some sporadic impact, prompting us to pare our FY22/FY23 EPS estimates for TCIEXP by ~2% each. We lower our Mar'22 target price slightly to Rs 1,140 (Rs 1,165 earlier) and continue to value the stock at 30x FY23E EPS.

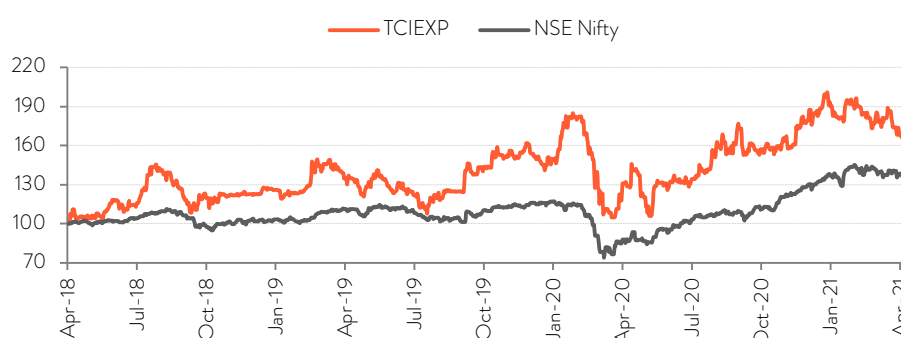
We remain positive on TCIEXP's long-term prospects and expect the company to benefit from (1) multiple long-term structural industry tailwinds – a rising share of surface express over air express and a shift in customer preference towards pan-India express players, (2) its focus on the fast-growing surface express and B2B segments, and (3) a wide geographic reach. We retain our BUY rating.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	10,773	10,589	(1.7)	12,539	12,324	(1.7)
EBITDA	1,689	1,659	(1.8)	2,021	1,984	(1.8)
EBITDA margin (%)	15.7	15.7	(1bps)	16.1	16.1	(2bps)
PAT	1,243	1,221	(1.8)	1,489	1,460	(2.0)
EPS (Rs)	32.4	31.8	(1.8)	38.8	38.1	(2.0)

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates include:

- inability to scale up revenue and profitability to maintain ROCE levels after incurring the planned capex,
- lingering impact of Covid-19 on economic activity,
- slower-than-expected recovery in business volumes, and
- increased competitive intensity from pan-India players.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	10,238	10,320	8,291	10,589	12,324
EBITDA	1,190	1,213	1,195	1,659	1,984
Depreciation	65	78	88	108	128
EBIT	1,125	1,135	1,107	1,551	1,856
Net interest income/(expenses)	(38)	(9)	(7)	(2)	0
Other income/(expenses)	32	44	66	79	90
Exceptional items	0	0	0	0	0
EBT	1,119	1,170	1,166	1,628	1,946
Income taxes	390	279	297	407	487
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	728	891	869	1,221	1,460
Adjustments	0	0	0	0	0
Adjusted net profit	728	891	869	1,221	1,460

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	724	620	522	725	844
Other current liabilities	200	195	156	200	232
Provisions	41	47	38	48	56
Debt funds	98	39	28	0	0
Other liabilities	0	1	1	1	0
Equity capital	77	77	77	77	77
Reserves & surplus	2,595	3,296	4,078	5,055	6,223
Shareholders' fund	2,672	3,373	4,155	5,132	6,299
Total liabilities and equities	3,735	4,274	4,901	6,106	7,432
Cash and cash eq.	171	412	661	749	972
Accounts receivables	1,631	1,658	1,476	1,741	2,026
Inventories	0	0	0	0	0
Other current assets	128	152	122	156	181
Investments	13	9	9	9	9
Net fixed assets	1,716	1,833	2,556	3,348	4,120
CWIP	14	111	0	0	0
Intangible assets	15	22	22	22	22
Deferred tax assets, net	(55)	(41)	(41)	(41)	(41)
Other assets	102	119	96	123	143
Total assets	3,735	4,274	4,901	6,106	7,432

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	794	969	957	1,329	1,588
Interest expenses	38	9	7	2	0
Non-cash adjustments	12	(14)	0	0	0
Changes in working capital	(122)	(171)	90	(68)	(171)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	722	793	1,053	1,263	1,416
Capital expenditures	(189)	(299)	(700)	(900)	(900)
Change in investments	(13)	4	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(202)	(295)	(700)	(900)	(900)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(308)	(59)	(11)	(28)	0
Interest expenses	(38)	(9)	(7)	(2)	0
Dividends paid	(134)	(180)	(87)	(244)	(292)
Other financing cash flows	9	(10)	0	0	0
Cash flow from financing	(471)	(258)	(104)	(275)	(292)
Changes in cash and cash eq.	49	240	249	88	224
Closing cash and cash eq.	171	412	661	749	972

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	23.2	22.7	31.8	38.1
Adjusted EPS	19.0	23.2	22.7	31.8	38.1
Dividend per share	2.9	4.7	2.3	6.4	7.6
Book value per share	69.8	87.9	108.3	133.8	164.3

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.1	3.1	3.8	3.0	2.5
EV/EBITDA	27.0	26.4	26.5	18.9	15.7
Adjusted P/E	43.8	35.9	36.8	26.2	21.9
P/BV	11.9	9.5	7.7	6.2	5.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.1	76.1	74.5	75.0	75.0
Interest burden (PBT/EBIT)	99.5	103.1	105.3	105.0	104.8
EBIT margin (EBIT/Revenue)	11.0	11.0	13.4	14.6	15.1
Asset turnover (Revenue/Avg TA)	3.8	3.3	2.2	2.3	2.1
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	30.7	29.5	23.1	26.3	25.5

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	15.7	0.8	(19.7)	27.7	16.4
EBITDA	31.3	1.9	(1.5)	38.8	19.6
Adjusted EPS	24.7	22.3	(2.5)	40.5	19.5
Profitability & Return ratios (%)					
EBITDA margin	11.6	11.8	14.4	15.7	16.1
EBIT margin	11.0	11.0	13.4	14.6	15.1
Adjusted profit margin	7.1	8.6	10.5	11.5	11.8
Adjusted ROAE	30.7	29.5	23.1	26.3	25.5
ROCE	42.1	36.2	28.8	33.0	32.2
Working capital days (days)					
Receivables	58	59	65	60	60
Inventory	0	0	0	0	0
Payables	29	25	27	30	30
Ratios (x)					
Gross asset turnover	5.5	5.1	3.3	3.1	2.9
Current ratio	2.0	2.6	3.2	2.7	2.8
Net interest coverage ratio	29.8	126.1	164.0	728.2	NM
Adjusted debt/equity	0.0	(0.1)	(0.2)	(0.1)	(0.2)

Source: Company, BOBCAPS Research

BUY

TP: Rs 320 | ▲ 18%

**TRANSPORT CORP OF
INDIA**

| Logistics

| 22 April 2021

Growth tailwinds across segments

After showing resilience during a challenging 9MFY21, growth tailwinds are converging for Transport Corp (TRPC). Auto recovery is a key catalyst for the supply chain segment, whereas a macro recovery will aid freight revenue. The seaways segment stands to gain from easing competitive intensity and fresh capacity. We model for a consolidated revenue/PAT CAGR of 12%/14% over FY21-FY23. Baking in disruptions from a second Covid wave, we cut FY22/FY23 EPS by 8%/7% and reduce our Mar'22 TP to Rs 320 (vs. Rs 330). Maintain BUY.

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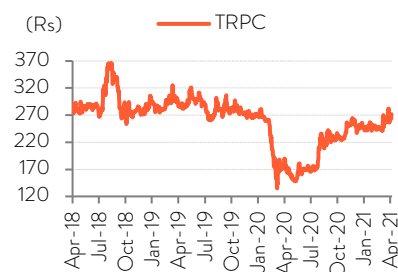
SCS segment to benefit from auto upturn: After several challenging quarters, TRPC's SCS segment posted a brisk 24% YoY revenue uptick in Q3FY21 led by volume recovery at key auto clients. The ongoing cyclical revival in the auto sector (~80% of SCS revenue) bodes well for growth. This coupled with client additions in the e-commerce and consumer space is estimated to support a 14% segmental revenue CAGR over FY21-FY23.

Ticker/Price	TRPC IN/Rs 272
Market cap	US\$ 275.7mn
Shares o/s	77mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 289/Rs 146
Promoter/FPI/DII	67%/2%/12%

Source: NSE

LTL to drive freight growth: Ongoing branch network expansion would continue to boost less-than-truckload (LTL) volumes. We expect network buildout and a broader manufacturing recovery to catalyse a 10% freight volume CAGR through to FY23. Rising LTL share also augurs well for segmental margin and ROCE expansion. In seaways, planned addition of a ship and easing competition after CCRI exited coastal shipping are likely to aid a 14% revenue CAGR.

STOCK PERFORMANCE



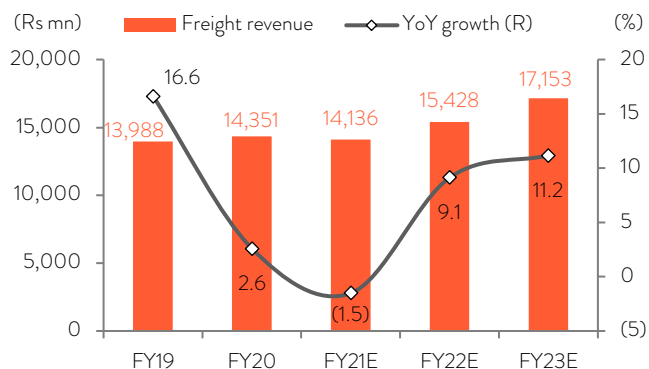
Source: NSE

Beneficiary of evolving industry trends: TRPC's integrated suite of cost-effective logistics solutions should help it capitalise on the growing demand for multimodal services and logistics outsourcing. With a presence across rail (through the TCI-Concor JV), seaways and road (both full and part truck load), the company is capable of offering mode-neutral transport solutions to clients. It also provides warehousing services through its SCS segment.

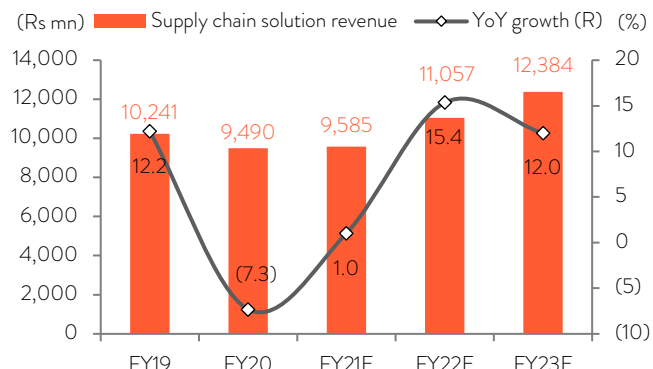
KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	27,536	27,178	27,320	30,722	34,282
EBITDA (Rs mn)	2,495	2,405	2,508	2,851	3,304
Adj. net profit (Rs mn)	1,460	1,531	1,408	1,551	1,833
Adj. EPS (Rs)	19.0	19.9	18.3	20.2	23.9
Adj. EPS growth (%)	17.7	4.6	(8.0)	10.2	18.2
Adj. ROAE (%)	17.7	16.0	12.9	12.7	13.5
Adj. P/E (x)	14.3	13.6	14.8	13.5	11.4
EV/EBITDA (x)	9.9	10.5	10.0	8.7	7.4

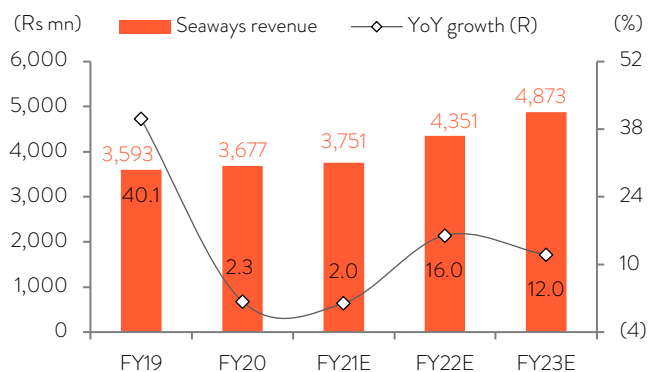
Source: Company, BOBCAPS Research

FIG 1 – FREIGHT REVENUE FORECAST TO GROW AT 10% CAGR OVER FY21E-FY23E


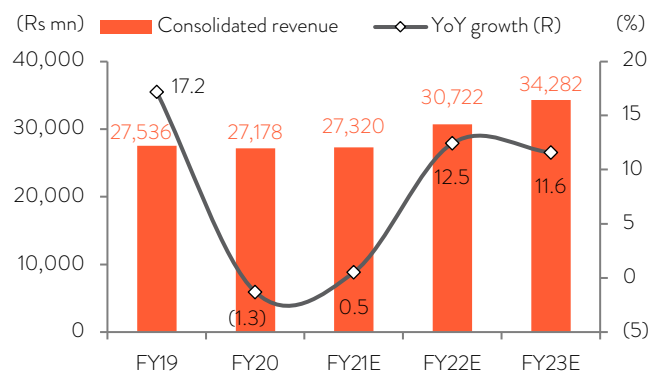
Source: Company, BOBCAPS Research

FIG 2 – SCS REVENUE TO RISE AT 14% CAGR, AIDED BY RECOVERY IN AUTO SALES


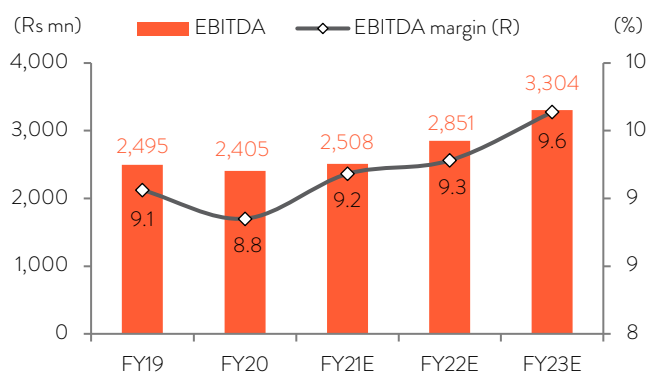
Source: Company, BOBCAPS Research | SCS – Supply chain solutions

FIG 3 – SEAWAYS TO POST 14% CAGR AS NEWLY ADDED SHIP ATTAINS OPTIMUM UTILISATION


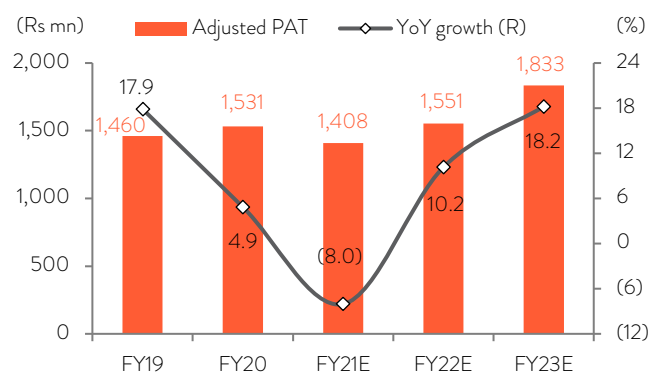
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED REVENUE EXPECTED TO LOG 12% CAGR


Source: Company, BOBCAPS Research

FIG 5 – EBITDA MARGIN TO EXPAND ~40BPS DRIVEN BY FASTER GROWTH IN SCS AND SEAWAYS


Source: Company, BOBCAPS Research

FIG 6 – EXPECT 14% CAGR IN ADJ. PAT OVER FY21E-FY23E


Source: Company, BOBCAPS Research

Valuation methodology

We cut our FY22/FY23 revenue forecasts by 3% each and earnings estimates by 8%/7% to bake in the potential impact of the second wave of Covid infections and ensuing containment measures. We continue to value TRPC using the SOTP method, ascribing an EV/EBITDA multiple for the core business and P/E multiple for its 49% stake in the Transystem JV. Post estimate revision, we have a new Mar'22 target price of Rs 320 from Rs 330 earlier, set at unchanged one-year forward EV/EBITDA multiples of 6x/8x/7x for the freight/SCS/seaways segments.

We continue to like TRPC for its multimodal capability – road, coastal shipping, and rail (through the JV with CCRI), strong positioning across business segments and robust clientele. The company should also benefit from rising LTL share within the freight segment, cyclical recovery in the key auto vertical (~80% of revenue) and increasing logistics outsourcing trends in its 3PL/SCS segment. Current valuations look attractive at 11x/9.7x FY22E/FY23E EPS. Reiterate BUY.

FIG 7 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	31,705	30,722	(3.1)	35,383	34,282	(3.1)
EBITDA	3,030	2,851	(5.9)	3,507	3,304	(5.8)
EBITDA margin (%)	9.6	9.3	(28bps)	9.9	9.6	(27bps)
PAT	1,692	1,551	(8.3)	1,978	1,833	(7.3)
PAT margin (%)	5.3	5.0	(29bps)	5.6	5.3	(24bps)

Source: Company, BOBCAPS Research

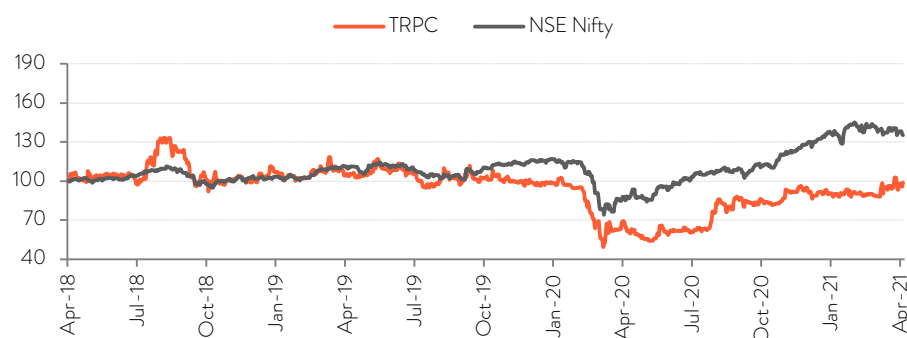
FIG 8 – VALUATION ASSUMPTIONS

Segment-wise valuation	(Rs mn)
Freight segment	
FY23E EBITDA	755
EV/EBITDA multiple applied (x)	6.0
Total EV for the segment	4,528
Supply chain segment	
FY23E EBITDA	1,362
EV/EBITDA multiple applied (x)	8.0
Total EV for the segment	10,898
Seaways segment	
FY23E EBITDA	1,365
EV/EBITDA multiple applied (x)	7.0
Total EV for the segment	9,552
Total EV of the consolidated business (ex. JV)	24,978
Net debt	2,947
Equity value of the consolidated business (ex. JV)	22,032
FY23E PAT of Transystem Logistics	487
P/E multiple applied (x)	10.0
Fair value of Transystem Logistics	4,870

Segment-wise valuation	(Rs mn)
Share of TRPC (%)	49
Valuation attributed to TRPC	2,386
Total equity value including JV	24,418
No. of shares (mn)	76.9
Mar'22 Target price	320

Source: Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates include:

- any delay in economic recovery,
- any impediment to the auto industry's cyclical upturn, and
- inability to pass on higher freight rates to clients, which could exert downward pressure on operating margin.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	27,536	27,178	27,320	30,722	34,282
EBITDA	2,495	2,405	2,508	2,851	3,304
Depreciation	774	825	898	1,017	1,117
EBIT	1,721	1,580	1,610	1,834	2,188
Net interest income/(expenses)	(374)	(343)	(275)	(264)	(241)
Other income/(expenses)	195	201	193	176	197
Exceptional items	0	0	0	0	0
EBT	1,542	1,438	1,528	1,746	2,143
Income taxes	(333)	(159)	(309)	(412)	(549)
Extraordinary items	(7)	(99)	(104)	0	0
Min. int./Inc. from associates	251	252	189	217	239
Reported net profit	1,453	1,432	1,304	1,551	1,833
Adjustments	7	99	104	0	0
Adjusted net profit	1,460	1,531	1,408	1,551	1,833

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	674	639	649	729	811
Other current liabilities	1,336	1,259	1,647	1,852	1,878
Provisions	65	102	103	115	129
Debt funds	4,722	4,236	4,236	3,886	3,536
Other liabilities	0	0	0	0	0
Equity capital	153	154	154	154	154
Reserves & surplus	8,819	10,142	11,458	12,776	14,243
Shareholders' fund	8,972	10,296	11,611	12,930	14,396
Total liabilities and equities	15,770	16,531	18,245	19,512	20,751
Cash and cash eq.	155	259	274	568	589
Accounts receivables	5,151	4,873	5,614	6,313	7,044
Inventories	53	66	66	84	94
Other current assets	1,583	1,877	2,144	2,128	2,375
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	795	833	929
Total assets	15,770	16,531	18,245	19,511	20,751

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	2,234	2,356	2,306	2,568	2,950
Interest expenses	374	343	275	264	241
Non-cash adjustments	(55)	(88)	0	0	0
Changes in working capital	(940)	(69)	(699)	(441)	(962)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,613	2,542	1,882	2,391	2,229
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)	0	(350)	(350)
Interest expenses	(374)	(343)	(275)	(264)	(241)
Dividends paid	(138)	(201)	(92)	(233)	(367)
Other financing cash flows	(14)	(6)	0	0	0
Cash flow from financing	(214)	(1,037)	(368)	(847)	(958)
Changes in cash and cash eq.	13	104	14	294	21
Closing cash and cash eq.	155	259	274	568	589

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	18.6	17.0	20.2	23.9
Adjusted EPS	19.0	19.9	18.3	20.2	23.9
Dividend per share	1.8	2.0	1.2	3.0	4.8
Book value per share	116.4	133.2	150.4	167.5	186.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.9	0.9	0.9	0.8	0.7
EV/EBITDA	9.9	10.5	10.0	8.7	7.4
Adjusted P/E	14.3	13.6	14.8	13.5	11.4
P/BV	2.3	2.0	1.8	1.6	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	94.7	106.4	92.1	88.8	85.5
Interest burden (PBT/EBIT)	89.6	91.0	94.9	95.2	98.0
EBIT margin (EBIT/Revenue)	6.2	5.8	5.9	6.0	6.4
Asset turnover (Revenue/Avg TA)	2.1	1.9	1.8	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	12.9	12.7	13.5

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)	0.5	12.5	11.6
EBITDA	15.3	(3.6)	4.3	13.7	15.9
Adjusted EPS	17.7	4.6	(8.0)	10.2	18.2
Profitability & Return ratios (%)					
EBITDA margin	9.1	8.8	9.2	9.3	9.6
EBIT margin	6.2	5.8	5.9	6.0	6.4
Adjusted profit margin	5.3	5.6	5.2	5.0	5.3
Adjusted ROAE	17.7	16.0	12.9	12.7	13.5
ROCE	12.9	10.9	10.4	11.0	12.4
Working capital days (days)					
Receivables	68	65	75	75	75
Inventory	1	1	1	1	1
Payables	10	9	10	10	10
Ratios (x)					
Gross asset turnover	3.2	2.8	2.4	2.4	2.5
Current ratio	3.3	3.5	3.4	3.4	3.6
Net interest coverage ratio	4.6	4.6	5.8	6.9	9.1
Adjusted debt/equity	0.5	0.4	0.3	0.3	0.2

Source: Company, BOBCAPS Research

BUY

TP: Rs 285 | ▲ 34%

VRL LOGISTICS

Logistics

22 April 2021

Play on macro revival

We expect VRL Logistics (VRL) to outperform industry growth in a macro upturn owing to its strong competitive advantages – wide network (671 branches), vast scale (4,600+ owned trucks), large customer base – and asset-intensive model. Factoring in a resurgent pandemic, we scale back FY22-FY23 earnings by 7% each and lower our Mar'22 TP to Rs 285 (vs. Rs 305). We now expect a 15% revenue CAGR over FY21-FY23 and stronger EBITDA/PAT growth of 23%/77% underpinned by operating leverage. Maintain BUY.

Sayan Das Sharma

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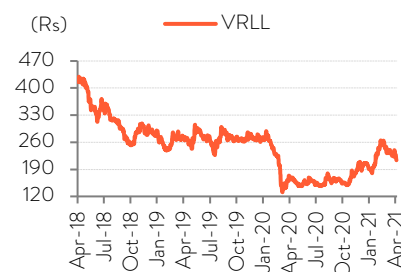
Primed for growth: Robust moats and an asset-intensive model position VRL well to gain from consolidation in the less-than-truckload (LTL) industry and from an upturn in manufacturing. Its ability to ensure truck availability and better services have helped it gain market share from smaller players during the pandemic – a trend likely to continue as small-scale truckers struggle to operate. We bake in a 13% revenue CAGR in VRL's goods transport segment over FY21-FY23.

Ticker/Price	VRL IN/Rs 213
Market cap	US\$ 255.2mn
Shares o/s	90mn
3M ADV	US\$ 1.1mn
52wk high/low	Rs 279/Rs 143
Promoter/FPI/DII	70%/3%/19%

Source: NSE

Resilient EBITDA margin: Considering higher operating leverage stemming from an asset-heavy model, we had expected VRL to see a deeper impact on profitability vs. peers during the Covid-induced slowdown. However, after posting an operating loss of Rs 339mn in Q1FY21, the company surprised with strong EBITDA growth of 20%/18% YoY in Q2/Q3, achieved through rate hikes of ~10% and a tight leash on fixed costs. Some cost savings such as cost rationalisation at the branch level are likely continue, shoring up margins.

STOCK PERFORMANCE



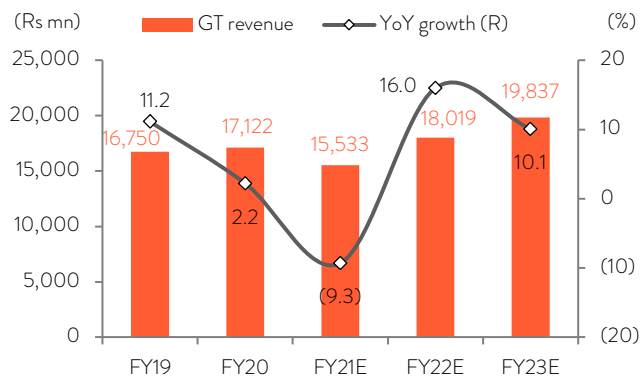
Source: NSE

Strong moats: Despite a tough macro climate over the past few years, VRL's key moats remain in place – an unparalleled network (671 branches, 45 hubs), large scale (4,649 owned trucks), cost advantages (in-house design, low-cost fuel sourcing), and a wide customer base. These competitive advantages should enable the company to capitalise on favourable industry trends.

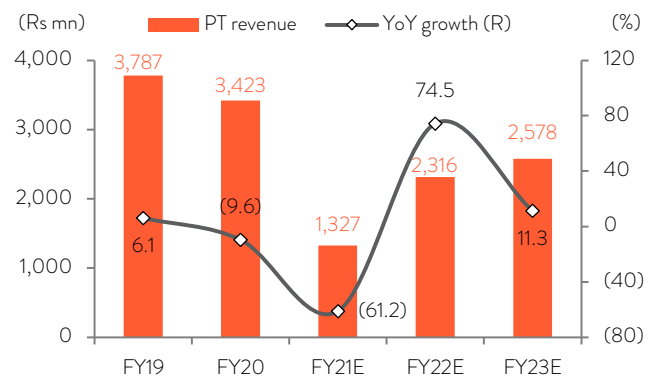
KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	21,095	21,185	17,358	20,890	23,002
EBITDA (Rs mn)	2,440	2,983	2,397	3,291	3,637
Adj. net profit (Rs mn)	919	901	363	980	1,139
Adj. EPS (Rs)	10.2	10.0	4.1	11.1	12.9
Adj. EPS growth (%)	(0.7)	(2.0)	(58.8)	169.9	16.3
Adj. ROAE (%)	14.8	14.3	6.0	16.0	17.6
Adj. P/E (x)	21.0	21.4	51.9	19.2	16.5
EV/EBITDA (x)	8.4	6.8	8.7	6.4	5.8

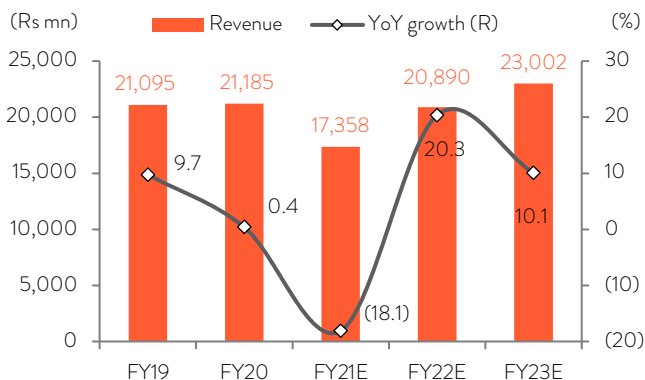
Source: Company, BOBCAPS Research

FIG 1 – GT REVENUE ESTIMATED TO LOG 13% CAGR OVER FY21E-FY23E


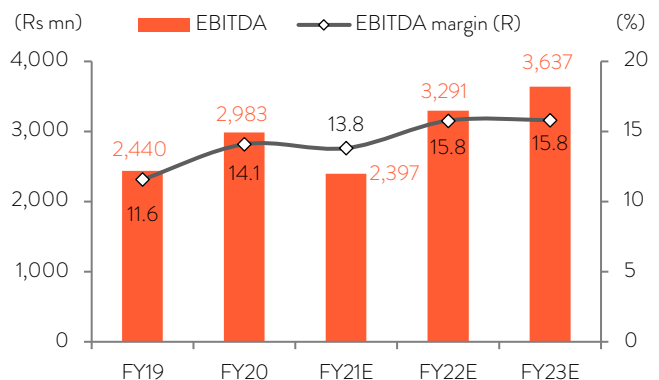
Source: Company, BOBCAPS Research | GT – Goods transport

FIG 2 – BUS SEGMENT TO REBOUND FASTER OFF LOW BASE BUT TO REMAIN BELOW FY20 LEVEL


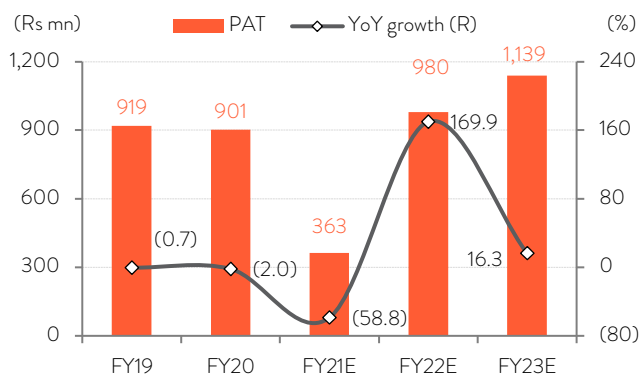
Source: Company, BOBCAPS Research | PT – Passenger transport

FIG 3 – TOTAL REVENUE PROJECTED TO GROW AT 15% CAGR


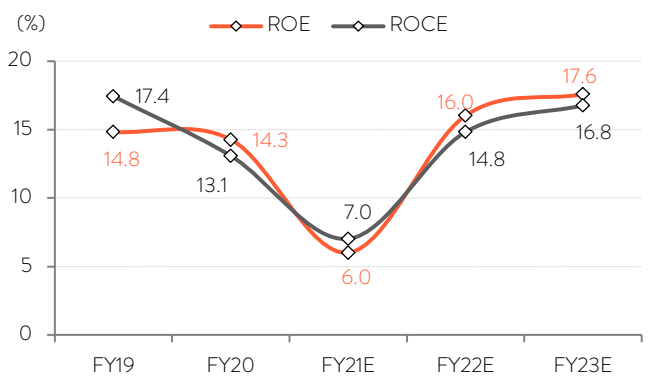
Source: Company, BOBCAPS Research

FIG 4 – OPERATING LEVERAGE BENEFITS TO DRIVE MARGIN GAINS


Source: Company, BOBCAPS Research

FIG 5 – EXPECT 77% PAT CAGR OFF A BENIGN BASE OF FY21 (8% OVER FY20-FY23E)


Source: Company, BOBCAPS Research

FIG 6 – HIGHER ASSET TURN, BETTER MARGIN TO BOOST RETURN RATIOS


Source: Company, BOBCAPS Research

Valuation methodology

Considering the potential impact of a resurgent pandemic, we lower our FY22/ FY23 revenue estimates by 3% each and earnings by 7% each. Consequently, our Mar'22 target price reduces to Rs 285 from Rs 305, which is set at an unchanged 22x FY23E EPS multiple.

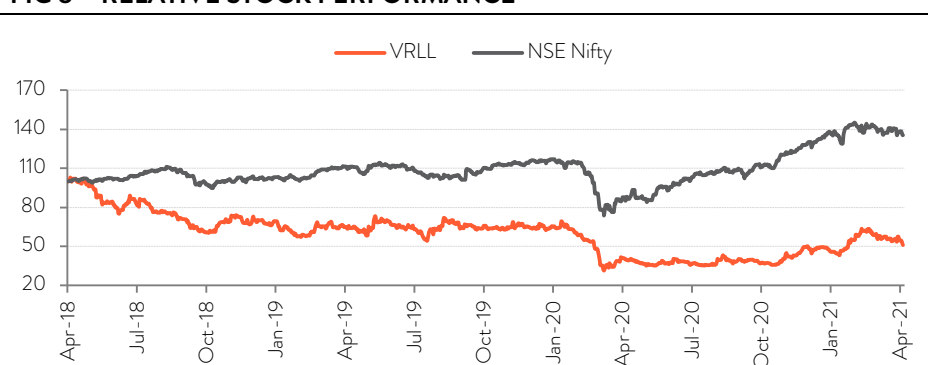
We like several aspects of VRLL's fundamentals – (1) a strong balance sheet (0.6x FY20 net debt/EBITDA), (2) wide branch and hub network (866 locations, 45 hubs), (3) large, diversified client base spread across a range of industries, and (4) strong OCF and FCF generation. The company is currently trading at reasonable valuations of 20x/17x FY22E/FY23E EPS, below its median five-year multiple of ~25x. Given an improving volume trajectory, sustained market share gains and robust margin traction, we believe VRLL is trading at an attractive entry point. Reiterate BUY.

FIG 7 – REVISED ESTIMATES – CONSOLIDATED

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	21,550	20,890	(3.1)	23,731	23,002	(3.1)
EBITDA	3,387	3,291	(2.8)	3,763	3,637	(3.3)
EBITDA margin (%)	15.7	15.8	4bps	15.9	15.8	(4bps)
PAT	1,051	980	(6.8)	1,224	1,139	(6.9)
PAT margin (%)	4.9	4.7	(19bps)	5.2	5.0	(20bps)

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- prolonged manufacturing slowdown owing to the lingering effect of Covid-19,
- sharp rise in diesel prices and VRLL's inability to pass this on, and
- any large debt-funded capex plan.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	21,095	21,185	17,358	20,890	23,002
EBITDA	2,440	2,983	2,397	3,291	3,637
Depreciation	1,006	1,675	1,634	1,719	1,834
EBIT	1,434	1,307	762	1,573	1,803
Net interest income/(expenses)	(109)	(367)	(408)	(403)	(441)
Other income/(expenses)	79	103	131	145	157
Exceptional items	0	0	0	0	0
EBT	1,405	1,043	485	1,315	1,519
Income taxes	(486)	(142)	(122)	(335)	(380)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	919	901	363	980	1,139
Adjustments	0	0	0	0	0
Adjusted net profit	919	901	363	980	1,139

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	61	35	28	34	42
Other current liabilities	705	569	476	572	630
Provisions	264	347	284	342	377
Debt funds	1,551	1,958	1,773	2,023	2,023
Other liabilities	0	2,651	2,351	1,951	1,651
Equity capital	903	903	883	883	883
Reserves & surplus	5,556	5,265	5,028	5,420	5,762
Shareholders' fund	6,459	6,169	5,912	6,303	6,645
Total liabilities and equities	9,041	11,729	10,824	11,227	11,368
Cash and cash eq.	131	134	115	118	184
Accounts receivables	795	823	951	858	945
Inventories	298	293	240	289	315
Other current assets	492	482	395	475	523
Investments	25	25	25	25	25
Net fixed assets	7,013	7,575	6,885	7,218	6,941
CWIP	416	44	0	0	0
Intangible assets	12	8	8	8	8
Deferred tax assets, net	(738)	(440)	(440)	(440)	(440)
Other assets	594	2,785	2,646	2,676	2,868
Total assets	9,041	11,729	10,824	11,227	11,368

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,925	2,576	1,997	2,698	2,973
Interest expenses	109	367	408	403	441
Non-cash adjustments	(70)	(297)	0	0	0
Changes in working capital	28	13	(62)	42	(110)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,991	2,660	2,343	3,143	3,304
Capital expenditures	(2,147)	(1,216)	(350)	(1,500)	(1,000)
Change in investments	1	1	0	0	0
Other investing cash flows	0	(2,940)	(500)	(500)	(700)
Cash flow from investing	(2,147)	(4,155)	(850)	(2,000)	(1,700)
Equities issued/Others	0	0	(620)	0	0
Debt raised/repaid	594	406	(184)	250	0
Interest expenses	(109)	(115)	(128)	(133)	(141)
Dividends paid	(497)	(632)	0	(588)	(797)
Other financing cash flows	105	1,840	(580)	(670)	(600)
Cash flow from financing	94	1,499	(1,512)	(1,140)	(1,539)
Changes in cash and cash eq.	(62)	3	(19)	3	66
Closing cash and cash eq.	131	134	115	118	184

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	10.2	10.0	4.1	11.1	12.9
Adjusted EPS	10.2	10.0	4.1	11.1	12.9
Dividend per share	5.5	7.0	0.0	6.7	9.0
Book value per share	71.5	68.3	66.9	71.4	75.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.0	1.0	1.2	1.0	0.9
EV/EBITDA	8.4	6.8	8.7	6.4	5.8
Adjusted P/E	21.0	21.4	51.9	19.2	16.5
P/BV	3.0	3.1	3.2	3.0	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.4	86.4	74.8	74.5	75.0
Interest burden (PBT/EBIT)	98.0	79.8	63.6	83.6	84.2
EBIT margin (EBIT/Revenue)	6.8	6.2	4.4	7.5	7.8
Asset turnover (Revenue/Avg TA)	252.7	208.3	157.3	193.7	210.0
Leverage (Avg TA/Avg Equity)	1.4	1.6	1.9	1.8	1.7
Adjusted ROAE	14.8	14.3	6.0	16.0	17.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	9.7	0.4	(18.1)	20.3	10.1
EBITDA	4.2	22.2	(19.6)	37.3	10.5
Adjusted EPS	(0.7)	(2.0)	(58.8)	169.9	16.3
Profitability & Return ratios (%)					
EBITDA margin	11.6	14.1	13.8	15.8	15.8
EBIT margin	6.8	6.2	4.4	7.5	7.8
Adjusted profit margin	4.4	4.3	2.1	4.7	5.0
Adjusted ROAE	14.8	14.3	6.0	16.0	17.6
ROCE	17.4	13.1	7.0	14.8	16.8
Working capital days (days)					
Receivables	14	14	20	15	15
Inventory	5	5	5	5	5
Payables	1	1	1	1	1
Ratios (x)					
Gross asset turnover	2.1	1.9	1.4	1.5	1.5
Current ratio	2.0	2.3	2.8	2.3	2.4
Net interest coverage ratio	13.2	3.6	1.9	3.9	4.1
Adjusted debt/equity	0.2	0.3	0.3	0.3	0.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

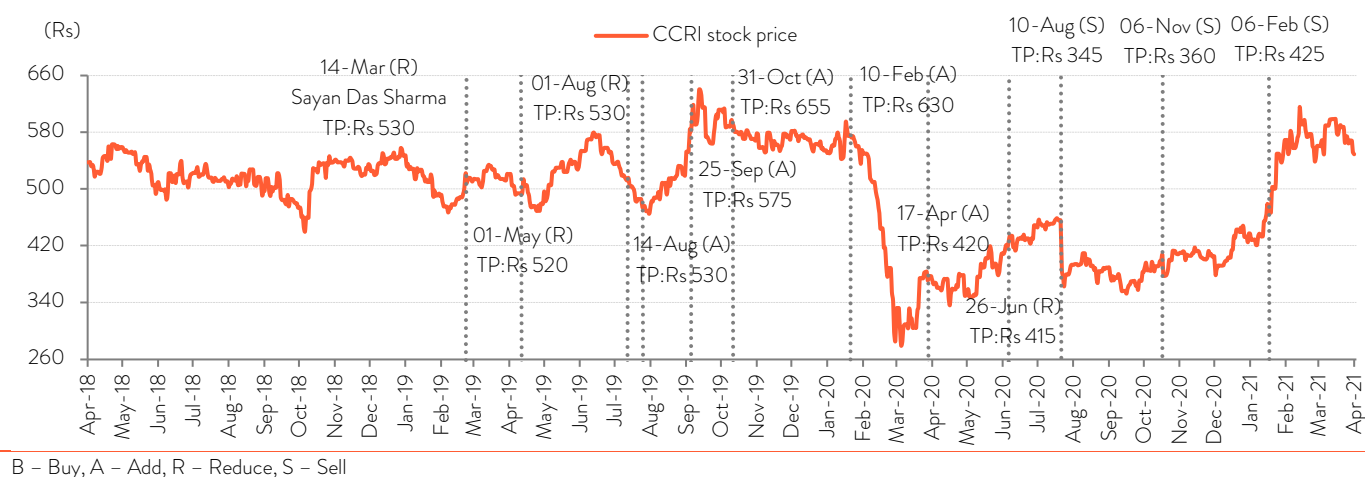
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

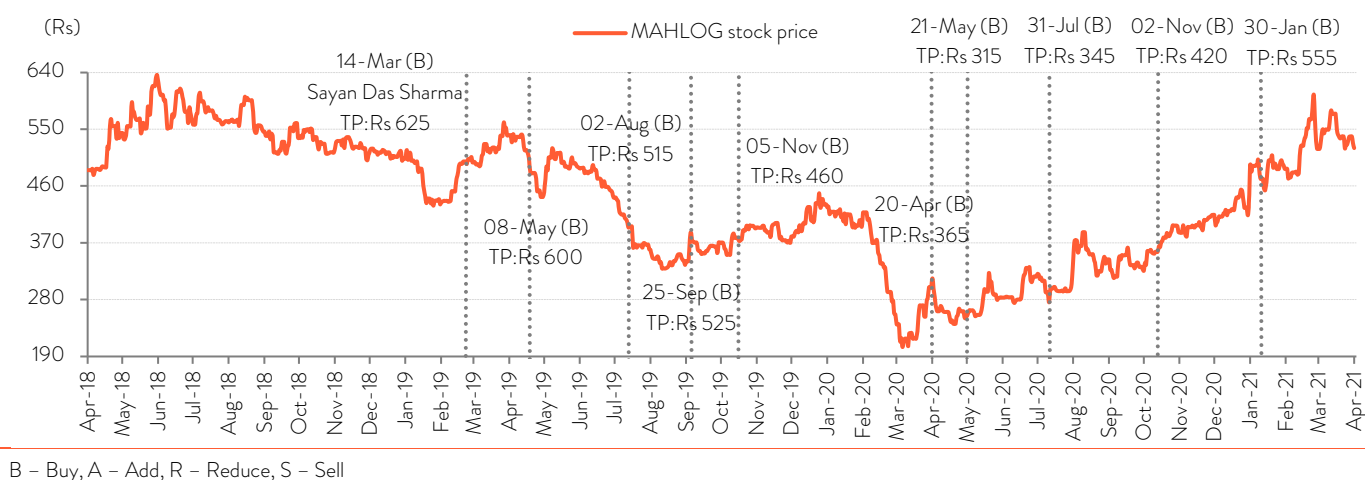
Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

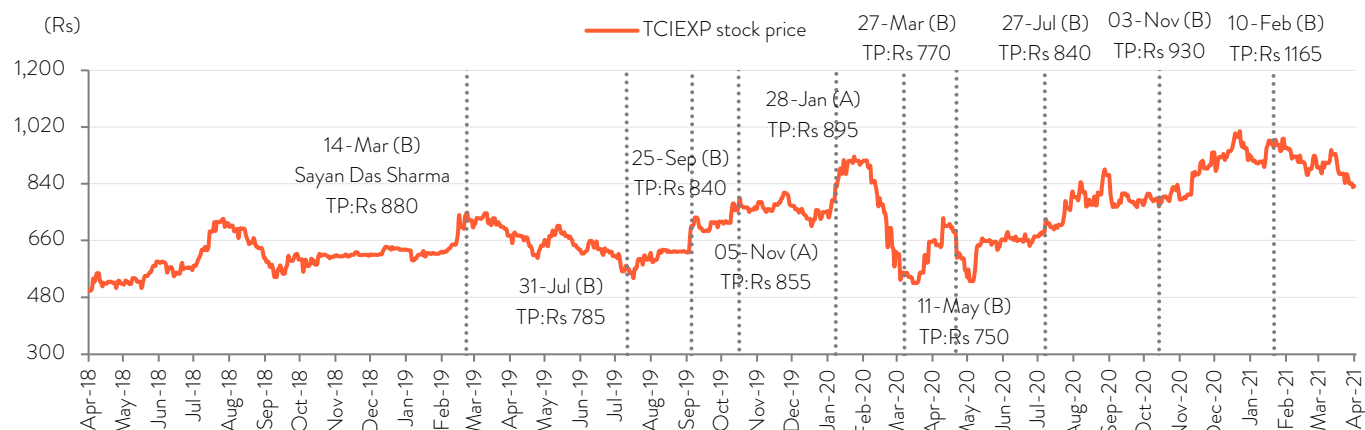
Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CONTAINER CORP OF INDIA (CCRI IN)

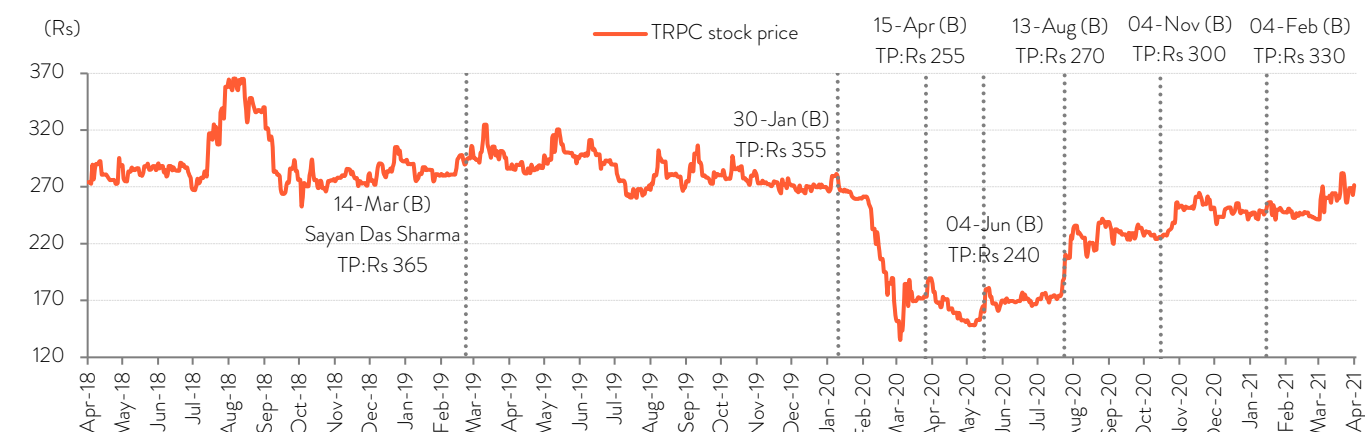


RATINGS AND TARGET PRICE (3-YEAR HISTORY): MAHINDRA LOGISTICS (MAHLOG IN)

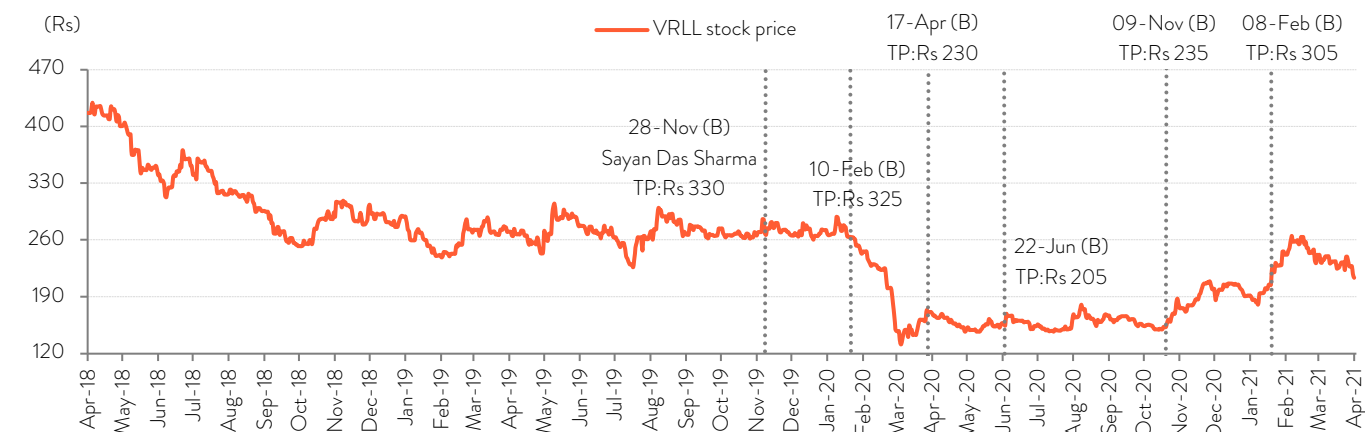


RATINGS AND TARGET PRICE (3-YEAR HISTORY): TCI EXPRESS (TCIEXP IN)


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

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


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

RATINGS AND TARGET PRICE (3-YEAR HISTORY): VRL LOGISTICS (VRLL IN)


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

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