October 27, 2023

Transport Corporation of India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	150.00	150.00	[ICRA]A1+; reaffirmed
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in an expectation of continuation of healthy operating performance for Transport Corporation of India Limited (TCIL), aided by its established position as a leading integrated logistics player in India with presence across the value chain. The company continues to maintain a strong financial risk profile characterised by negative net debt position and healthy credit metrics. The company's market leadership position within the organised segment and strong distribution network, coupled with its asset light business model, have helped it counter business downturns over the years and maintain a stable financial profile. The company has presence across multiple segments of the logistics industry, including transportation, warehousing, and supply-chain management; additionally, with its presence across various modes of transportation like roadways, railways and seaways, TCIL offers multi-modal services to customers as well.

The company reported a robust revenue growth of ~16% YoY to Rs. 3,256.7 crore in FY2023 and ~30% YoY growth to Rs. 902.9 crore in Q1 FY2024, aided by healthy performance across all the divisions. It's profitability indicators remained healthy with OPM at 11.6% in FY2023 (vis-à-vis 13% in FY2022) and 11.5% in Q1 FY2024 (12% in Q1 FY2023), aided by a healthy scale of operations, various cost-efficiency measures undertaken, and healthy profitability in the seaways division. TCIL also focused on improving its collections to ensure healthy cash flows; its receivable days reduced to 54 days in FY2023 from 57-68 days in the previous three fiscals. Capex outgo during the year remained lower than budgeted, as the company decided against adding a new ship given the high asset prices. Going forward, despite budgeted annual capex of about Rs. 250-300 crore in FY2024 towards strengthening of infrastructure (fleet and warehouses) and purchase of a new ship, the estimated cash accruals are likely to help the company maintain a healthy financial risk profile.

While the fragmented nature of the transportation business leads to stiff competition, TCIL's integrated and diversified business profile and customer base, coupled with a healthy proportion of contracted business, provide adequate revenue visibility. Additionally, there continues to be a gradual shift in preference towards organised players in the transportation business since the implementation of the GST and e-way bills.

The company's operations are working capital intensive in nature, characterised by an elongated receivable cycle, especially in the freight and SCS divisions. TCIL has, however, maintained its working capital intensity at manageable levels over the past few years and is expected to maintain the same. Accordingly, ICRA expects the company to continue to maintain a strong liquidity profile, characterised by an expectation of stable retained cash flows and low utilisation of its working capital limits. Nevertheless, ICRA would continue to monitor the company's ability to manage its receivables and working capital cycle, as any significant deterioration in the same can impact its liquidity profile or credit metrics adversely.

Key rating drivers and their description

Credit strengths

Leading integrated multi-modal logistics player, with presence across different segments of logistics industry - TCIL is one of the leading integrated multi-modal logistics services providers in India, with an established presence throughout the country.

The company is present across multiple segments of the logistics industry, including transportation, warehousing and supply-chain management. Additionally, with its presence across various modes of transportation like roadways, railways and seaways, TCIL can offer multi-modal services to customers. Overall, its operations are organised into three main divisions—freight, SCS and seaways—and it has been able to establish itself as a leading player in each of these segments.

Established track record of operations, widespread network/ infrastructure and strong brand strength - With more than six decades of operations, a fleet of approximately 10,000 trucks and trailers managed daily, and a widespread distribution network (branch network of more than 900 company-owned offices), TCIL has cemented its position as a leading player in the logistics industry over the years.

Diversified customer base and high share of contracted business provides revenue visibility - TCIL has a diversified customer base, which has remained stable over the years. The business caters to various industries that account for a healthy proportion of its revenues. Although the fragmented nature of the transportation business leads to intense competition, TCIL continues to have a healthy proportion of contracted business (especially in the SCS and seaways divisions). This, coupled with the diversified customer mix, insulates the business from any downturn in demand in any industry, to an extent, thereby providing healthy revenue visibility.

Strong financial risk profile characterised by conservative capital structure and strong debt coverage indicators - The company's debt level remains same in FY2023 after taking additional term loan from banks. In addition, the company had cash and liquid investments of ~Rs. 277 crore as on March 31, 2023, thereby resulting in a net-negative debt position. The credit metrics improved in FY2023 with gearing of 0.1 times (0.3 times in FY2021), Total debt/OPBITDA of 0.2 times (PY: 1.1 times) and interest coverage ratio of 44.7 times (PY: 33.0 times). Going forward, despite budgeted annual capex of Rs. 250-300 crore towards strengthening of infrastructure (fleet and warehouses) over the medium term, the estimated cash accruals are likely to help the company maintain a healthy financial risk profile.

Credit challenges

Highly competitive intensity in freight transportation segment constrains division's profitability - TCIL's freight division, which remains asset-light in nature, continues to be exposed to fluctuations in hire charges for market vehicles, as the rates are primarily dependent on the demand–supply position. Additionally, as the company enters freight contracts with various customers, its ability to pass through any variations in fuel prices remains critical in maintaining its profitability margin.

Elongated receivable cycle as a result of delays in payments from various customers in freight and SCS divisions - The company's operations are working capital intensive in nature (NWC/OI of 14-18% over the years), characterised by an elongated receivable cycle, especially in the freight and SCS divisions. The company, however, managed to improve its collection period in FY2023 and reduce its receivable days to 54 from 57-68 days in the previous two to three years.

Environmental and Social Risks

Environmental considerations: The company is primarily involved in logistics and transportation services, a highly competitive business and, thus, sensitive to increases in costs, particularly fuel costs, and the cost of upgradation of fleet in line with new emission technologies. As road freight transport accounts for a material proportion of emissions, the industry remains exposed to the impact of regulatory standards becoming more stringent. In this regard, TCIL remains exposed to any adverse movements in operating economies for fleet operators. The company also offers services through alternate modes of transportation such as railways and seaways, which results in relatively efficient and environment-friendly transportation systems.

Social considerations: Transportation players have a healthy dependence on human capital, particularly drivers. Hence, retaining human capital and maintaining healthy relationships with the driver community for disruption-free operations remain critical. TCIL continues to undertake several initiatives to provide training programmes for drivers, making them aware of road safety norms and initiating better fuel-efficiency measures. It has also undertaken various initiatives in the areas of health, education, and community development, while promoting women's engagement and providing safety and skill upgradation training to its employees.

Liquidity position: Strong

TCIL's liquidity position is **strong**, characterized by an expectation of stable cash flows from operations, low utilization of working capital limits and surplus cash and liquid balances of ~Rs. 277 crore as on March 31, 2023 (~Rs. 302.5 crore as of June 30, 2023). As against the available sources of cash, the company has planned capex of ~Rs. 250-300 crore and debt repayments of Rs. 16-17 crore in FY2024, which are expected to be met from a mix of internal accruals, existing cash balances and lines of credit.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Negative pressure on the rating could arise if an increase in working capital intensity led by an elongation in receivable cycle, results in a deterioration in liquidity position and debt coverage metrices, or in case of significant debt funded capex that exerts pressure on the credit metrics (Total Debt/OPBDITA greater than 1.5 times on a sustained basis).

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TCIL. As on March 31, 2023, the company had 9 subsidiaries, including step-down subsidiaries, one joint venture and one associate company, which are all enlisted in Annexure-2.

About the company

TCIL, incorporated in 1958, is one of the largest multi-modal logistics and supply-chain solution providers in India in the organised sector with a nationwide reach. It started as a conventional road transport company. After going public in 1974, TCIL has diversified its revenue streams over the period and presently operates through multiple divisions—freight, SCS and seaways, besides a smaller, wind power division. TCI has several subsidiaries, key among them being TCI-CONCOR Multimodal Solutions Pvt. Ltd. (49% shareholding with Container Corporation of India Ltd; offers multi-modal rail-road container services) and TCI Cold Chain Solutions Limited (20% shareholding with Mitsui & Co. Ltd., Japan; integrated cold-chain services to meet temperature-controlled warehousing and distribution services). Additionally, it has joint venture with Mitsui & Co., Japan (holding 51% stake), Transystem Logistics International Pvt. Ltd. (logistical partner for Toyota Kirloskar and other Japanese companies).

Key financial indicators (audited)

TCIL Consolidated	FY2022	FY2023
Operating income	3,270.7	3,796.3
PAT	265.2	276.2
OPBDIT/OI	13%	11.6%
PAT/OI	8.1%	7.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.2	0.2
Interest coverage (times)	33.0	44.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Source: Company, ICRA Research; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 27, 2023	Oct 28, 2022	Oct 29, 2021	Oct 26, 2020
1	**Commercial Paper Programme**	Short term	150.0	--	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	Yet to be placed			150.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	TCIL Ownership	Consolidation Approach
Transport Corporation of India Limited	100.00% (rated entity)	Full Consolidation
TCI Global (Singapore) Pte Ltd.	100.0%	Full Consolidation
TCI Holdings Asia Pacific Pte. Ltd.	100.0%	Full Consolidation
TCI Holdings SA & E Pte Ltd	100.0%	Full Consolidation
TCI Bangladesh Limited	100.0%	Full Consolidation
TCI Nepal Pvt. Limited	100.0%	Full Consolidation
TCI-CONCOR Multimodal Solutions	51.0%	Full Consolidation
TCI Cold Chain Solutions Limited	80.0%	Full Consolidation
TCI Ventures Limited	100.0%	Full Consolidation
Stratsol Logistics Private Limited	100.0%	Full Consolidation
Transystem Logistics International Pvt. Ltd.	49.0%	Equity Method
Cargo Exchange Private Limited	32.5%	Equity Method

Source: TCIL annual report FY2023

Note: ICRA has taken a consolidated view of the parent (TCIL), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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