

October 23, 2024

## Transport Corporation of India Limited: Long-term rating of [ICRA]AA (Stable) assigned; short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	-	200.00	[ICRA]AA (Stable); assigned
Commercial Paper Programme	150.00	150.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>150.00</b>	<b>350.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action factors in the 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's revenue rose ~7% on a YoY basis to Rs. 4,041.2 crore in FY2024 and ~10% on a YoY basis to Rs. 1,045.1 crore in Q1 FY2025, aided by steady performance across all the divisions. Its profitability indicators remained healthy with an OPM of 10.6% in FY2024 (vis-à-vis 11.6% in FY2023) and 11.0% in Q1 FY2025 (11.5% in Q1 FY2024), aided by a healthy scale of operations and cost-efficiency measures undertaken. TCIL has continued to focus on improving its collections to ensure healthy cash flows. Its receivable days have remained in the range of 54-56 days in the previous three fiscals. The capex outgo during the year remained lower than the budgeted as the company decided against adding a new ship, given the high asset prices. Going forward, despite budgeted annual capex of Rs. 250-300 crore in FY2025 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. ICRA notes that the company has recently completed a buyback programme, which led to a total fund outgo of ~Rs. 197 crore (including tax obligations). Despite the fund outgo, the company continues to maintain a strong liquidity 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, provides 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.

ICRA notes that TCI has several subsidiaries/joint ventures, the 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 a joint venture with Mitsui & Co., Japan (Mitsui & Co. holds a 51% stake), Transystem Logistics International Pvt. Ltd. (logistical partner for Toyota Kirloskar and other Japanese companies). The scale of operations of the joint ventures has been improving over the years, thereby further strengthening the business risk profile of TCIL.

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, on the back of likely 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.

The Stable outlook reflects ICRA's opinion that the company will benefit from its established track record in the road logistics business coupled with its asset-light model. The overall financial risk profile of the company is also likely to remain healthy.

## 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, wide network/ infrastructure and strong brand strength** – With more than six decades of operations, a fleet of more than 10,000 trucks and trailers managed daily, and a wide distribution network (branch network of more than 1,000 company-owned offices), TCIL has established its position as a leading player in the logistics industry over the years.

**Diversified customer base and high share of contracted business provide 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 levels increased in FY2024 after taking additional term loan from banks. Nonetheless, the company had cash and liquid investments of ~Rs. 412 crore as on March 31, 2024, resulting in a net negative debt position. The credit metrics also remained at healthy levels in FY2024 with a gearing of 0.1 times (0.1 times in FY2023), Total debt/OPBITDA of 0.5 times (previous year [PY]: 0.2 times) and interest coverage ratio of 32.3 times (PY: 44.7 times). Despite recent cash outgo towards the buyback programme and a budgeted annual capex of Rs. 250-300 crore towards strengthening of infrastructure (fleet and warehouses), the estimated cash accruals are likely to help the company maintain a healthy financial risk profile, going forward.

### Credit challenges

**Intense competition 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 variation in fuel prices remains critical in maintaining its profit margin.

**Elongated receivable cycle because 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 15-17% over the years), characterised by an elongated receivable cycle, especially in the freight and SCS divisions. The company has, however, managed to improve its collection period over the years, which is expected to remain in the range of 54-56 days over the medium term.

## Environment and Social Risks

**Environmental considerations:** The company is primarily involved in logistics and transportation services, a highly competitive business and is thus sensitive to increases in costs, particularly that of fuel, 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, TCI remains exposed to adverse movement in operating economies for fleet operators. The company also offers services through alternative modes of transports such as railways and seaways, which results in relatively efficient and environment friendly options.

**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. TCI 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 remains **strong**, characterised by an expectation of stable cash flow from operations, low utilisation of working capital limits and surplus cash and liquid balances of ~Rs. 273.5 crore as on September 30, 2024. Against the available sources of cash, the company has planned capex of Rs. 250-300 crore and debt repayments of Rs. 27-28 crore (excluding lease liabilities) in FY2025, which are expected to be met from a mix of internal accruals, existing cash balances and lines of credit.

### Rating sensitivities

**Positive factors** – The long-term rating can be upgraded if there is a healthy ramp-up in operations along with sustenance of healthy profitability, which leads to an improvement in credit metrics and liquidity. The ability of the company to further diversify its business profile would also be considered favourably for a rating upgrade.

**Negative factors** – Pressure on the ratings could arise if an increase in the working capital intensity, led by an elongation in the receivable cycle, results in a deterioration in the liquidity position and the debt coverage metrics, or in case of a significant debt funded capex that exerts pressure on the credit metrics. Specific credit metric for ratings downgrade includes Total Debt/OPBDITA of more than 1.0 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TCIL. As on March 31, 2024, the company had nine 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 multimodal 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 diversified its activities into sea cargo movement by setting up TCI Seaways Ltd. In 1989, the TCI Group further diversified into surface cargo movement, on the express mode, by launching its express transportation service, GATI. However, in 1996, post the family division of assets among seven sons of Late P. D. Agarwal, GATI was divested into a separate company.

TCIL has diversified its revenue streams over the period and at present operates through multiple divisions — freight, SCS and seaways, besides a smaller, wind power division. Till FY2016, it also operated an express cargo division (TCI XPS), which was demerged into a separate entity (the appointed date of demerger was March 31, 2016), and at present, the company has three primary divisions. TCI has several subsidiaries/joint ventures, the key among them being TCI-CONCOR Multimodal Solutions Pvt. Ltd. (a 49% shareholding with Container Corporation of India Ltd; offers multi-modal rail-road container services) and TCI Cold Chain Solutions Limited (a 20% shareholding with Mitsui & Co. Ltd., Japan; integrated cold chain services to meet temperature-controlled warehousing and distribution services). Additionally, it has a joint venture with Mitsui & Co., Japan (Mitsui & Co. holds a 51% stake), Transystem Logistics International Pvt. Ltd. (logistical partner for Toyota Kirloskar and other Japanese companies).

### Key financial indicators (audited)

TCIL Consolidated	FY2023	FY2024
<b>Operating income</b>	3,796.3	4,041.2
<b>PAT</b>	276.2	278.6
<b>PAT (including share of profit from JV's/associates)</b>	320.6	354.5
<b>OPBDIT/OI</b>	11.6%	10.6%
<b>PAT/OI</b>	7.3%	6.9%
<b>Total outside liabilities/Tangible net worth (times)</b>	0.2	0.2
<b>Total debt/OPBDIT (times)</b>	0.2	0.5
<b>Net debt/OPBDIT (times)</b>	-0.4	-0.5
<b>Interest coverage (times)</b>	44.7	32.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2025) Amount rated (Rs. crore)	Chronology of rating history for the past 3 years							
			FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
1 Commercial Paper Programme	Short-term	150.00	Oct 23, 2024	[ICRA]A1+	Oct 27, 2023	[ICRA]A1+	Oct 28, 2022	[ICRA]A1+	Oct 29, 2021	[ICRA]A1+
2 Term Loan	Long Term	200.00	Oct 23, 2024	[ICRA]AA (Stable)	-	-	-	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
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+
NA	Term Loan-I	FY2025	NA	FY2030	50.00	[ICRA]AA (Stable)
NA	Term Loan-II	FY2025	NA	FY2030	50.00	[ICRA]AA (Stable)
NA	Proposed Term Loan	NA	NA	NA	100.00	[ICRA]AA (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**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 Private Limited	100.0%	Full Consolidation
TCI-CONCOR Multimodal Solutions Private Limited	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 FY2024

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

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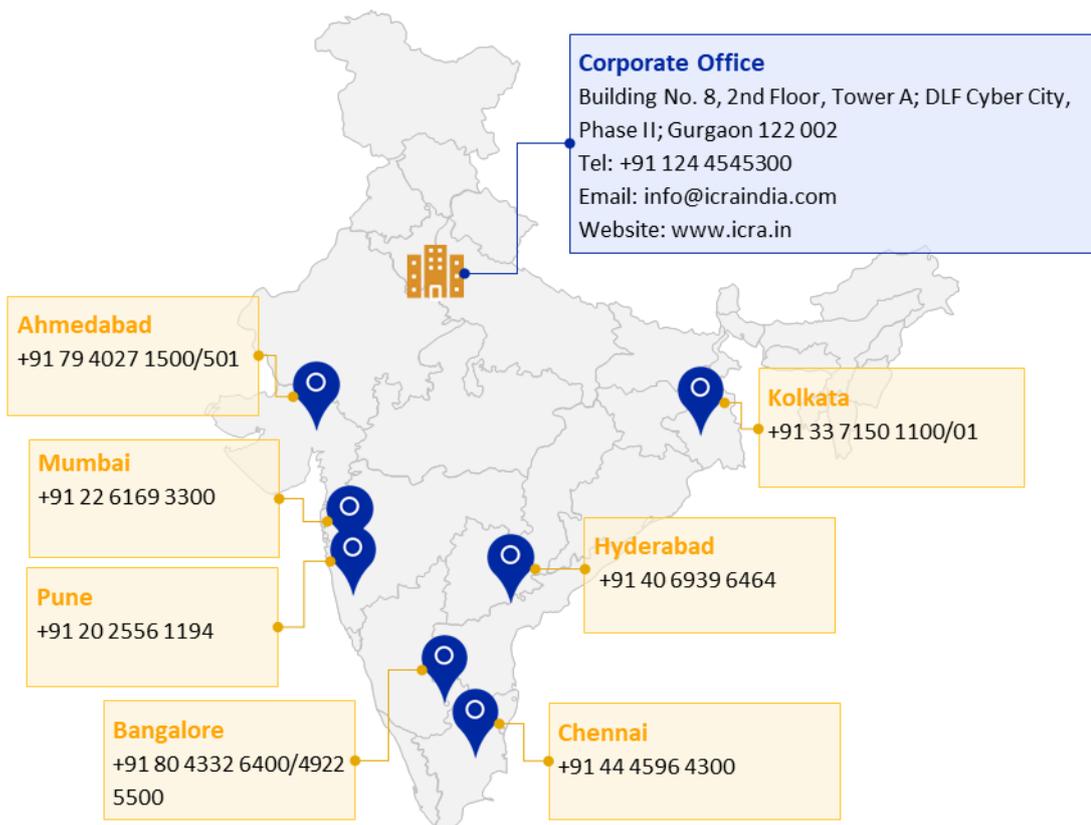
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