

October 26, 2020

Transport Corporation of India Limited: Ratings reaffirmed at [ICRA]A1+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	200.0	225.0	[ICRA]A1+; Reaffirmed and assigned to enhanced limits

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation for Transport Corporation of India Limited (TCIL) continues to factor in its established position as a leading integrated logistics player in India with presence across the value chain, and its comfortable financial risk profile, characterised by low gearing levels and healthy credit metrics. Despite some moderation in earnings expected in the current fiscal from the challenges brought about by the pandemic, TCIL is expected to maintain a relatively stable operating and financial performance, supported by its comfortable capital structure and resilient business model. The integrated nature of operations with presence across multi-modal transportation and a mix of asset-light and asset-heavy operations have helped TCIL protect its business prospects to a large extent, even in the midst of the pandemic.

Although the domestic logistics industry is highly fragmented with multiple unorganised players, TCIL has been able to establish itself as one of the leading integrated multi-modal logistics services providers. With a fleet of approximately 9,000 trucks and trailers managed on a daily basis and a widespread distribution network on a pan India basis (branch network of more than 900 company-owned offices), it has cemented its position as a leading player in the logistics industry over the years.

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 is able to offer multi-modal services to customers as well. This diversified presence across logistics services and transport modes has supported the company in faring better than smaller, unorganised players in the current fiscal, when the pandemic and nationwide lockdown completely disrupted the operations of the logistics industry.

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 GST and E-way bills, which is expected to be further accelerated by the pandemic. Thus, even as pandemic induced disruptions and sluggishness in economic activity are likely to limit the company's revenue growth prospects in the current fiscal, its growth prospects over the medium term continue to remain healthy.

The ratings also continue to factor in TCIL's comfortable financial risk profile, characterised by a conservative capital structure, healthy debt coverage indicators and adequate liquidity. Gearing levels remain low at 0.5 time as on March 31, 2020, and profitability has remained stable, which has enabled it to maintain healthy debt coverage indicators over the years (interest coverage of 6.7 times, Total Debt/OBDITA of 1.9 times and NCA/Total Debt of 42.3% in FY2020 on a

consolidated basis). Going forward, despite budgeted annual capex of about Rs. 120-180 crore towards strengthening of infrastructure (fleet and warehouses), and some moderation in earnings expected in the current fiscal on account of the pandemic, the estimated cash accruals are likely to help the company maintain a healthy financial risk profile (Total Debt/OPBDITA expected to be range between 1.3-2.2 times till FY2023).

The company's operations are working capital intensive in nature, characterised by an elongated receivable cycle, especially in the freight and Supply Chain Solutions (SCS) divisions. TCIL has, however, been able to maintain 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 an adequate liquidity profile, characterised by an expectation of stable retained cash flows and moderate 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 the 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 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 is able to 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 the three segments of operations.

Established track record of operations, widespread network/ infrastructure and strong brand strength - With more than six decades of operations, a fleet of approximately 9,000 trucks and trailers managed on a daily basis, 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; 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). Coupled with the diversified customer mix, this insulates the business from any downturn in demand in a particular 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 capital structure remains conservative in nature, as characterised by its gearing of 0.5 time as on March 31, 2020. The stable profitability has helped TCI to report healthy debt coverage indicators with interest coverage of 6.7 times, Total Debt/OBDITA of 1.9 times and NCA/Total Debt of 42.3% in FY2020 on a consolidated basis. Going forward, it has budgeted a capex of about Rs. 120-180 crore annually towards strengthening its infrastructure (both fleet and warehouses). Despite these capex plans and some moderation in earnings expected in the current fiscal on account of the pandemic induced challenges, the estimated cash accruals are likely to help the company maintain a healthy financial risk profile (Total Debt/OPBDITA expected to be range between 1.3-2.2 times till FY2023).

Credit challenges

High competitive intensity in the 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, since the rates are primarily dependent on the demand–supply position. Additionally, since the company enters into freight contracts with various customers, its ability to pass through any variation 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 supply chain division – The company's operations are working capital intensive in nature (NWC/OI of 18-20% over the years), characterised by an elongated receivable cycle, especially in the freight and SCS divisions. TCIL has, however, managed to keep its overall debtors in check despite a weakening liquidity position of some of its customers, with the company selectively terminating business with customers that have been delaying payments.

Liquidity position: Adequate

TCIL's liquidity position is adequate, characterised by an expectation of stable retained cash flows of ~Rs. 120-180 crore/annum, moderate utilisation of working capital limits (average utilisation of ~65-70%) and planned capex of ~Rs. 100-140 crore/annum (capex plans remain flexible and may be revised lower in line with demand in economy). TCIL is expected to have annual debt repayments of ~Rs. 40-50 crore/annum, with its cash accruals likely to be more than sufficient to help repay the same in a timely manner.

Rating sensitivities

Positive Triggers – Not Applicable

Negative triggers – 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 metrics. , or in case of significant debt-funded capex that exerts pressure on the credit metrics (Total Debt/OPBDITA greater than 2.2 times on a sustained basis).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company.

About the company

TCIL, incorporated in 1958, is one of the largest transport companies in India in the organised sector with a nationwide reach. It started as a conventional road transport company. Subsequent to going public in 1974, TCIL diversified its activities into sea cargo movements 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, following the family's division of assets among the seven sons of the late P. D. Agarwal, GATI was divested into a separate company.

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

Key financial indicators (consolidated audited)

	FY2019	FY2020
Operating Income (Rs. crore)	2,753.6	2,717.8
PAT (Rs. crore)	145.3	143.2
OPBDIT/OI (%)	9.1%	8.9%
PAT/OI (%)	5.3%	5.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6
Total Debt/OPBDIT (times)	1.9	1.8
Interest Coverage (times)	6.7	7.0

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019	FY2018
					26-Oct-2020	27-Sep-2019	13-Sep-2018	22-Sep-2017
1	Commercial Paper	Short Term	225.00	195.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

*As on March 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE688A14JX0	Commercial Paper	13-Aug-20	5.95%	11-Nov-20	25.00	[ICRA]A1+
INE688A14JY8	Commercial Paper	20-Aug-20	5.80%	10-Nov-20	10.00	[ICRA]A1+
INE688A14JZ5	Commercial Paper	24-Aug-20	5.60%	20-Nov-20	15.00	[ICRA]A1+
INE688A14KA6	Commercial Paper	24-Aug-20	5.40%	19-Nov-20	15.00	[ICRA]A1+
INE688A14KB4	Commercial Paper	25-Aug-20	5.75%	23-Nov-20	18.00	[ICRA]A1+
INE688A14KC2	Commercial Paper	27-Aug-20	5.60%	25-Nov-20	20.00	[ICRA]A1+
INE688A14KD0	Commercial Paper	14-Sep-20	5.25%	11-Dec-20	11.00	[ICRA]A1+
INE688A14KE8	Commercial Paper	15-Sep-20	5.55%	14-Dec-20	17.00	[ICRA]A1+
-	Commercial Paper	Yet to be placed			94.00	[ICRA]A1+

Source: Transport Corporation of India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Transystem Logistics International Pvt. Ltd.	49.00%	Equity Method
TCI Global Pte Ltd.	100.00%	Full Consolidation
TCI Global Brazil Logistica Ltda	100.00%	Full Consolidation
TCI Holdings Netherlands B.V.	100.00%	Full Consolidation
TCI Holdings Asia Pacific Pte. Ltd.	100.00%	Full Consolidation
TCI Holdings SA & E PTE LTD	100.00%	Full Consolidation
TCI Bangladesh Limited	100.00%	Full Consolidation
TCI Nepal Private Limited	100.00%	Full Consolidation
TCI Ventures Limited	100.00%	Full Consolidation
TCI Cold Chain Solutions Limited	100.00%	Full Consolidation
Stratsol Logistic Private Limited	100.00%	Full Consolidation
TCI-CONCOR Multimodal Solutions Pvt. Ltd.	51.00%	Full Consolidation
Cargo Exchange India Private Limited (Effective from 5th April 2019)	30.80%	Equity Method

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