October 29, 2021

Transport Corporation of India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	225.00	225.00	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into consideration Transport Corporation of India Limited's (TCIL) established position as a leading integrated logistics player in India with presence across the value chain, and its strong financial risk profile characterised by low gearing levels 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 can 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 FY2021, when the pandemic and nationwide lockdown disrupted the operations of the logistics industry. Despite the challenges brought about by the pandemic, TCIL maintained a relatively stable operating and financial performance, reporting a marginal revenue growth across all three major divisions namely, freight, supply chain solutions (SCS) and seaways, in FY2021. Moreover, the company was able to improve its profitability during the fiscal reporting an operating profit margin (OPM) of 9.4%[1] in FY2021 (over 8.9% in FY2020), aided by various cost-efficiency measures undertaken by it. Further, the company reported a robust performance in H1 FY2022 with revenues of Rs. 1,528.3 crore[1] (including other income, 37.4% YoY growth) and EBITDA Margin of 12.3%, despite the adverse impact of the second wave of Covid-19 on load availability.

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 could 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 strong financial risk profile, characterised by a conservative capital structure, healthy debt coverage indicators and strong liquidity. Gearing levels remain low at 0.3 time as[2] on March 31, 2021, and profitability has remained fairly stable, which has enabled it to maintain healthy debt coverage indicators over the years (interest coverage of 9.9 times, Total Debt[2]/OPBITDA of 1.1 times and NCA/Total Debt[2] of 71% in FY2021). Going forward, despite budgeted annual capex of about Rs. 200-225 crore in FY2021 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.

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, 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

[1] All figures are based on consolidated financials

[2] Total Debt includes lease liabilities of Rs. 20.8 crore as on March 31, 2021.

a strong 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 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 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 any 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 0.3 time[3] as on March 31, 2021. The stable profitability has helped TCI to report healthy debt coverage indicators with interest coverage of 9.9 times, Total Debt[3]/OBDITA of 1.1 times and NCA/Total Debt[3] of 71% in FY2021 on a consolidated basis. Going forward, despite budgeted annual capex of about Rs. 220-250 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

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 16-18% 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 who have been delaying payments.

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[3] Total Debt includes lease liabilities of Rs. 20.8 crore as on March 31, 2021.

Liquidity position: Strong

TCIL's liquidity position is **strong**, characterised by an expectation of stable retained cash flows, low to marginal utilisation of working capital limits (average utilisation of ~7% in the six-month period ending in September 2021) and surplus cash and liquid balances of ~Rs. 29 crore as on September 30, 2021. Against the available sources of cash, the company has planned capex of ~Rs. 200-225 crore and debt repayment of ~Rs. 42 crore in FY2022, which are expected to be met by a mix of internal accruals and available 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 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	For arriving at the ratings, ICRA has considered the consolidated financials of TCIL. As on March 31, 2021, the company had 11 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 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

TCIL Consolidated	FY2020 (audited)	FY2021 (audited)	H1 FY2022 (unaudited)
Operating Income (Rs. crore)	2,717.8	2,802.4	1,521.3
PAT (Rs. crore)	118.0	130.4	112.9
OPBDIT/OI (%)	8.9%	9.4%	11.8%
PAT/OI (%)	4.3%	4.7%	7.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5	0.3
Total Debt*/OPBDIT (times)	1.7	1.1	0.4
Interest Coverage (times)	7.0	9.9	22.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**Total Debt includes lease liabilities of Rs. 3.5 crore as on March 31, 2020, Rs. 20.8 crore as on March 31, 2021, and Rs. 22.9 crore as on September 30, 2021.*

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 29, 2021	Oct 26, 2020	Sep 27, 2019	Sep 13, 2018
1	Commercial Paper Programme	Short term	225.00	-	[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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	Yet to be placed			225.00	[ICRA]A1+

Source: *Company*

Annexure-2: 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 Global Brazil Logistica Ltda	100.0%	Full Consolidation
TCI Holdings Netherlands BV	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*	100.0%	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 FY2021;*20% of the stake in TCI Cold Chain Solutions Limited has been purchased by Mitsui & Co. Ltd., Japan in Q2 FY2022.*

Note: *ICRA has taken a consolidated view of the parent (TCIL), its subsidiaries, joint venture and associate company 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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