

Transport Corporation of India

BUY



Asian Markets Securities Pvt. Ltd.

Strong performance across verticals...

Institutional Research

CMP (Rs)	275
Target (Rs)	342

Nifty: 10,577; Sensex: 34,413

Key Stock Data

BSE Code	532349
NSE Code	TCI
Bloomberg	TRPC IN
Shares O/smn (FV Rs 5)	76.6
Dividend Yield (%)	0.4
Market cap (Rs bn)	21.1
52-week high/low	350/183
3-m daily avg vol.	67,872

Rel. Performance

(%)	1m	3m	12m
TCI	8.1	(2.2)	58.7
Nifty	4.7	3.8	23.9
Sensex	6.0	4.3	23.7

Shareholding Pattern

(%)	Jun17	Sep17	Dec17
Promoter	66.1	66.1	66.1
FII	5.0	5.0	2.1
DII	6.2	6.1	6.4
Others	22.7	22.9	25.4

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Transport Corporation of India's (TCI) Q3FY18 result was better than our estimates both on revenue and earnings front. It reported a y-o-y revenue growth of 24.3% to Rs 5.5bn which was supported by strong growth in SCM and coastal shipping divisions. Its largest transport segment also performed well. Despite high energy prices, healthy revenue growth across segments helped in EBITDA margin expansion. EBITDA margin improved by 110bps y-o-y to 9.5%. PAT witnessed a growth of 65.1% to Rs 279.1mn.

Strong momentum across all divisions

TCI maintained the growth trajectory as it reported a y-o-y growth of 24.3% in revenues to Rs 5.6bn. We believe underline volume growth would be ~20%. All its business vertical reported a growth. Its largest trucking division reported a y-o-y growth of 16% to Rs 2.6bn. Post GST normalcy across trades helped the transport division in reporting relatively higher growth as compared to its normal growth trajectory of 8-10%. Going ahead we believe the growth in trucking division will see some moderation at ~8-10%. Though there are enough growth opportunities for transport division but the management doesn't not want chase the growth beyond 10% run rate as the transport business is relatively lower margin business and requires high working capital. Thus the pursuing higher growth in transport division may impact the overall profitability and working capital of the company.

The Coastal shipping division continued to perform well by recording a growth of 66% y-o-y to Rs 660.5mn on the back of recent vessel addition on the west coast and strong growth from older ships. The new ship addition expected to contribute revenue of ~Rs 120mn and adjusting the same the growth from older ships would be ~35%.

SCM maintained the strong growth trajectory

SCM division maintained the growth trajectory by recording a y-o-y growth of 26%. The growth traction in SCM was supported by ongoing improvement in automobile sector and manufacturing sector. New SCM contracts from consumer goods and e-commerce (fulfillment center management) sectors also boosted the growth. Going ahead with the implementation of GST along with ongoing growth in automobile sector and expected revival in manufacturing sector, SCM will continue to see healthy growth traction.

EBITDA margin improved by 110bps y-o-y

On the back of relatively higher growth in better margin divisions like SCM and coastal shipping division along with improved operating leverage across segments, EBITDA margin improved by 110bps to 9.5%. SCM and trucking divisions reported a margin improvement whereas margin of coastal shipping was lower mainly on account of certain change in custom rates post GST implementation and diesel price increase contributed in margin contraction of coastal shipping division. However, it witnessed healthy improvement on a sequential basis.

Going ahead, we believe blended EBITDA margin will see structural improvement up to low double digit on the back of structural shift in revenue mix towards better margin segments. However, over the medium period we may see some margin contraction in the coming quarters as dry docking in the coastal shipping division is expected in Q4FY18. PAT was up by 65% to Rs 279mn.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Sales	17,270	19,427	21,974	24,918	28,067
yoy (%)	(28.5)	12.5	13.1	13.4	12.6
EBITDA	1,283	1,607	1,994	2,368	2,815
yoy (%)	(33.6)	25.2	24.1	18.7	18.9
PAT	565	813	1,090	1,378	1,743
yoy (%)	(30.5)	43.7	34.1	26.5	26.5
Equity	152	153	153	153	153
EPS (Rs)	7.4	10.6	14.2	18.0	22.8

Source: Company, AMSEC Research

Exhibit 2: Key Indicators

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDAM (%)	7.4	8.3	9.1	9.5	10.0
NPM (%)	3.3	4.2	5.0	5.5	6.2
PER (x)	36.9	25.8	19.3	15.2	12.0
P/BV (x)	3.6	3.2	2.8	2.5	2.1
EV/Sales (x)	1.4	1.3	1.1	1.0	0.9
EV/EBITDA (x)	18.6	15.3	12.5	10.6	8.8
RoACE (%)	9.4	11.8	13.8	15.1	16.8
RoANW (%)	9.5	13.3	15.7	17.3	18.8

Outlook and Valuation

TCI will see CAGR of 13% and 29% in revenues and earnings respectively over FY17-20E. The strategy to focus more on higher margin services would enhance its profitability in coming years. GST implication will act as growth catalyst for large SCM players like TCI and will fetch the larger basket of growth avenues. At CMP, TCI is trading at 15x FY19E and 12x FY20E consolidated earnings. We assign 'Buy' rating on TCI with a price target of Rs 342, based on 15x FY20E earnings.

Exhibit 3: 3QFY18 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	y-o-y change	q-o-q change	9MFY18	9MFY17	y-o-y change
Income from operations	4,467.4	4,816.3	4,968.7	5,203.3	5,553.1	24.3%	6.7%	15,725.1	13,245.7	18.7%
Less: Expenditures										
Operating cost	3,623.3	3,903.0	3,980.8	4,175.2	4,500.5	24.2%	7.8%	12,656.5	10,637.7	19.0%
Staff cost	252.5	279.7	286.6	296.0	295.4	17.0%	-0.2%	878.0	755.3	16.2%
Other operating & admin	215.9	240.3	249.5	231.6	231.0	7.0%	-0.3%	712.1	663.9	7.3%
EBITDA	375.7	393.3	451.8	500.5	526.2	40.1%	5.1%	1,478.5	1,188.8	24.4%
EBITDA Margin	8.4%	8.2%	9.1%	9.6%	9.5%	+110BPS	-10BPS	9.4%	9.0%	+40BPS
Other Income	51.7	64.1	9.4	71.1	72.1	39.5%	1.4%	152.6	93.6	63.0%
Depreciation	152.3	148.3	160.0	175.0	176.4	15.8%	0.8%	511.4	429.8	19.0%
EBIT	275.1	309.1	301.2	396.6	421.9	53.4%	6.4%	1,119.7	852.6	31.3%
Interest	67.8	63.5	78.4	73.9	78.9	16.4%	6.8%	231.2	210.6	9.8%
Profit Before Tax	207.3	245.6	222.8	322.7	343.0	65.5%	6.3%	888.5	642.0	38.4%
Tax	38.2	60.2	46.5	67.3	63.9	67.3%	-5.1%	177.7	124.6	42.6%
Profit after Tax	169.1	185.4	176.3	255.4	279.1	65.1%	9.3%	710.8	517.4	37.4%
Extraordinary items	-	-	-	-	-	NA	NA	-	0.4	-100.0%
Net Profit	169.1	185.4	176.3	255.4	279.1	65.1%	9.3%	710.8	517.8	37.3%
EPS	2.31	2.53	2.41	3.49	3.81	65.1%	9.3%	9.70	7.1	37.3%
Operating Matrix						bps	bps			bps
Operating cost/Sales	81.1%	81.0%	80.1%	80.2%	81.0%	(6)	80	80.5%	80.3%	18
Staff cost/Sales	5.7%	5.8%	5.8%	5.7%	5.3%	(33)	(37)	5.6%	5.7%	(12)
Others/Sales	4.8%	5.0%	5.0%	4.5%	4.2%	(67)	(29)	4.5%	5.0%	(48)
EBITDA Margin	8.4%	8.2%	9.1%	9.6%	9.5%	107	(14)	9.4%	9.0%	43
Net Margin	3.8%	3.8%	3.5%	4.9%	5.0%	124	12	4.5%	3.9%	61
ETR	18.4%	24.5%	20.9%	20.9%	18.6%	20	(223)	20.0%	19.4%	59

Source: Company, AMSEC Research,

Exhibit 4: 3QFY18 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	y-o-y change	q-o-q change	9MFY18	9MFY17	y-o-y change
Segments Revenue										
Transport	2,236.8	2,590.6	2,435.9	2,305.1	2,585.9	15.6%	12.2%	7,326.9	6,632.5	10.5%
SCM	1,875.8	1,836.4	1,983.9	2,339.0	2,363.8	26.0%	1.1%	6,686.7	5,538.0	20.7%
Coastal shipping	397.9	462.3	580.6	579.0	660.5	66.0%	14.1%	1,820.1	1,177.0	54.6%
Wind power	9.2	10.5	24.1	31.6	7.1	-22.8%	-77.5%	62.8	63.3	-0.8%
Intersegments/ Others	(52.3)	(83.5)	(55.8)	(51.4)	(64.2)	22.8%	24.9%	(171.4)	(165.1)	3.8%
Total	4,467.4	4,816.3	4,968.7	5,203.3	5,553.1	24.3%	6.7%	15,725.1	13,245.7	18.7%
EBIT										
Transport	47.0	50.3	48.9	70.5	83.3	77.2%	18.2%	202.7	162.4	24.8%
SCM	98.4	115.0	117.6	157.0	140.5	42.8%	-10.5%	415.1	332.3	24.9%
Coastal shipping	92.2	122.8	118.9	98.3	145.0	57.3%	47.5%	362.2	259.0	39.8%
Wind power	0.1	1.1	15.1	23.4	(2.1)	-2200.0%	-109.0%	36.4	38.3	-5.0%
Total	237.7	289.2	300.5	349.2	366.7	54.3%	5.0%	1,016.4	792.0	28.3%
EBIT Margins						bps	bps			
Transport	2.1%	1.9%	2.0%	3.1%	3.2%	112	16.3	2.8%	2.4%	31.8
SCM	5.2%	6.3%	5.9%	6.7%	5.9%	69.8	(76.8)	6.2%	6.0%	20.7
Coastal shipping	23.2%	26.6%	20.5%	17.0%	22.0%	(121.9)	497.6	19.9%	22.0%	(210.5)
Wind power	1.1%	10.5%	62.7%	74.1%	-29.6%	NA	NA	58.0%	60.5%	(254.4)
Total	5.3%	6.0%	6.0%	6.7%	6.6%	128.3	(10.8)	6.5%	6.0%	48.4

Source: Company, AMSEC Research

Financials (Consolidated)**(Rs mn)****Profit and Loss Account**

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
Operating Income	17,270	19,427	21,974	24,918	28,067
Other operating income	-	-	-	-	-
Operating expenses	14,034	15,821	17,732	20,058	22,445
Staff expenses	980	1,068	1,209	1,370	1,544
Selling, admin & other exp.	974	931	1,039	1,121	1,263
EBITDA	1,283	1,607	1,994	2,368	2,815
Depreciation	521	592	649	704	744
Operating profit	762	1,015	1,345	1,663	2,071
Other income	78	122	165	187	210
EBIT	840	1,137	1,510	1,850	2,282
Interest	239	288	303	322	322
Exceptional items	-	-	-	-	-
Profit before tax	601	849	1,206	1,528	1,959
Tax	154	191	302	382	490
Share in Profit from JV & ass.	119	155	185	232	274
PAT	565	813	1,090	1,378	1,743
EO Items	-	-	-	-	-
Net Profit	565	813	1,090	1,378	1,743
Share O/s mn	76.1	76.6	76.6	76.6	76.6
EPS Rs	7.4	10.6	14.2	18.0	22.8

Cash Flow Statement

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
PBT	601	849	1,206	1,528	1,959
Non-cash adjustments	885	880	953	1,027	1,066
Chg in working capital	637	(806)	(502)	(573)	(622)
Tax & Interest Paid	(318)	(191)	(302)	(382)	(490)
Cashflow from oper.	1,766	731	1,356	1,600	1,914
Capital expenditure	(1,740)	(1,039)	(1,200)	(1,200)	(1,000)
Chg in investments	-	(120)	-	-	-
Other invest. cashflow	802	-	-	-	-
Cashflow from invest.	(938)	(1,159)	(1,200)	(1,200)	(1,000)
Issue of equity	36	1	-	-	-
Issue/repay debt	-	-	-	-	-
Interest Paid	(295)	(288)	(303)	(322)	(322)
Inc./(Dec.) Loan Funds	766	649	500	-	-
Dividends paid	(182)	(214)	(214)	(214)	(214)
Other finan.cashflow	(1,457)	352	-	-	-
Cashflow from finan.	(1,133)	501	(17)	(536)	(536)
Chg cash & cash eq	(304)	73	139	(136)	378
Open cash & cash eq	421	117	190	329	193
Clsq cash & cash eq	117	190	329	193	571
Free cashflow to firm	27	(308)	156	400	914

Balance Sheet

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS:					
Share Capital	152	153	153	153	153
Reserves	5,618	6,338	7,214	8,379	9,909
Shareholders Funds	5,770	6,491	7,368	8,532	10,062
Minority interest	39	43	43	43	43
Non-Current Liabil.					
Long term borrowings	3,146	3,795	4,295	4,295	4,295
Deferred tax liability	323	395	395	395	395
Current Liab. & Prov.	1,336	1,595	1,784	2,018	2,260
Total Equity & Liab.	10,614	12,319	13,884	15,283	17,055
APPLICATION OF FUNDS :					
Non Current Assets					
Fixed Assets	5,447	5,894	6,445	6,940	7,196
Noncurrent investment	779	899	1,084	1,316	1,590
Current Assets					
Current investment	-	-	-	-	-
Inventories	18	25	19	22	25
Sundry debtors	3,253	3,570	4,038	4,579	5,158
Cash and bank	117	190	329	193	571
Short loans & advan.	1,000	1,741	1,969	2,233	2,515
Others current assets	-	-	-	-	-
Total Assets	10,614	12,319	13,884	15,283	17,055
Net working capital	2,935	3,741	4,243	4,816	5,437
Total Gross Debt	3,146	3,795	4,295	4,295	4,295
Total Net debt	3,029	3,606	3,967	4,102	3,724
Total capital employed	9,278	10,724	12,100	13,265	14,795

Key Ratios

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
PER SHARE					
EPS Rs	7.4	10.6	14.2	18.0	22.8
CEPS Rs	14.3	18.3	22.7	27.2	32.5
Book Value Rs	75.9	84.7	96.2	111.4	131.4
VALUATION					
EV / Net Sales	1.4	1.3	1.1	1.0	0.9
EV / EBITDA	18.6	15.3	12.5	10.6	8.8
P / E Ratio	36.9	25.8	19.3	15.2	12.0
P / BV Ratio	3.6	3.2	2.8	2.5	2.1
GROWTH YOY%					
Sales Growth	-28.5	12.5	13.1	13.4	12.6
EBITDA Growth	-33.6	25.2	24.1	18.7	18.9
Net Profit Growth	-30.5	43.7	34.1	26.5	26.5
Gross Fixed Asset Growth	9.4	10.7	11.2	10.1	7.6
PROFITABILITY					
EBITDA / Net Sales (%)	7.4	8.3	9.1	9.5	10.0
EBIT / Net sales (%)	4.9	5.9	6.9	7.4	8.1
NPM / Total income (%)	3.3	4.2	5.0	5.5	6.2
ROE (%)	9.5	13.3	15.7	17.3	18.8
ROCE (%)	9.4	11.8	13.8	15.1	16.8
Tax / PBT %	25.6	22.5	25.0	25.0	25.0
TURNOVER					
Inventory (Days)	0.5	0.6	0.4	0.4	0.4
Current Ratio	3.3	3.5	3.6	3.5	3.7
Quick Ratio	3.3	3.4	3.6	3.5	3.6
LIQUIDITY					
Gross Asset Ratio	1.9	1.9	1.9	2.0	2.1
Total Asset Ratio	1.9	1.9	1.9	2.0	2.0
Net Debt-Equity Ratio	0.5	0.6	0.5	0.5	0.4
Interest Coverage	3.2	3.5	4.4	5.2	6.4
PAYOUT					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	119.8	139.4	139.4	139.4	139.4
Yield %	0.9	1.0	1.0	1.0	1.0

Source: Company, AMSEC Research;

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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