

Transport Corporation of India (TRPC)

CMP	Target	Rating
Rs. 183	Rs. 210	BUY

Rating: ◀▶

Target price: ▲

EPS: ▲

How does our one year outlook change?

- We maintain our positive stance on TRPC as it will benefit from 1) imminent spurt in contract logistics (TCI Supply Chain Solution (SCS) division) aided by rollout of GST (expected in July 2017) 2) government thrust on coastal shipping providing incremental volumes (TCI Seaways) and 3) shift of volumes from unorganised to organised market (TCI freight). TCI's is well placed to capitalise on its infrastructure and established market position in an evolving logistics space. We expect revenue and EBITDA growth of 13% and 21% CAGR FY16-19 (net of TCI XPS). **We have a BUY rating and with a SOTP based (slide 2) TP of Rs. 210**
- TCI freight witnessed a revenue growth of 10% YoY in 3QFY17 driven by incremental volumes from capital goods and engineering segment. EBIT margins for division came in at ~2% for quarter against ~3% in 2QFY17 despite toll charge waiver. The division operates on an asset light model thereby passing on toll waiver benefits to fleet owners. We believe TCI freight will see the weakest growth among all the verticals. Expect ~7% revenue CAGR through FY16-19.
- Production cut by Auto OEM's, constituting ~70% of SCS division's top line, during the quarter led to revenue decline of 4% in SCS division for 3QFY17. We believe SCS division will be favourably placed with the advent of GST, as FMCG, e-commerce (~45% CAGR growth by FY20), retail, apparel, and electronics sectors are expected to see heightened focus on logistics efficiency leading to incremental volume for contract logistics. Expect revenue CAGR of 18% from FY16-19, while sustaining EBITDA margin at ~11%.
- Expect Seaways division to grow at revenue CAGR of 14% through FY16-19 with addition of new ship operating on key routes along Indian coastline.
- Capex:** Expect addition of new vehicles in SCS division and new ship in Seaways division during the year leading to overall capex spend of ~Rs.1.5bn.

How does our 3 year Outlook change?

- Improving macro economic condition and shift of volumes from unorganised sector to organised is expected to drive TRPC's revenue and EBITDA CAGR of 13% and 19%, respectively, through FY16-21. We believe TRPC's infrastructure, experienced management team (vintage of ~four decades) and long standing customer relationships is expected to aid its position as being a preferred 3PL partner. Furthermore, government thrust on coastal shipping with new initiatives under Sagarmala is expected to drive overall volumes.
- Expect disruption from tech enabled start-ups resulting in significant price competition in the Full Truck Load (FTL) segment

3QFY17 Update				6th February, 2017	
Promoters	66.5			Bloomberg	TRPC IN EQUITY
Institutions	12.3			Shares o/s	77
Public	21.2			Market Cap	Rs. 14bn
	1m	3m	12m	52-wk High-Low	Rs. 237-126
TRPC	20%	0%	28%	3m Avg. Daily Vol	Rs. 12mn
Sensex	6%	4%	15%	Index	BSE500

Key estimate revision

	FY17E			FY18E		
	Old	New	Change	Old	New	Change
Revenue	17,626	18,311	3.9%	19,552	20,327	4.0%
EBITDA	1,702	1,848	8.5%	1,831	1,911	4.4%
Margin (%)	9.7%	10.1%	40 bps	9.4%	9.4%	5 bps
PAT	770	920	19.6%	753	778	3.4%
PAT Margin	4.4%	5.0%	65 bps	3.8%	3.8%	0 bps
EPS	10.1	12.1	19.6%	9.9	10.2	3.4%

All figures in Rs. mn, except EPS, which is in Rs.

Financial summary

Year	Revenue (Rs. mn)	EBITDA (Rs. mn)	EBITDA Margin	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY17E	18,311	1,848	10.1%	920	12.1	20.7	10.7
FY18E	20,327	1,911	9.4%	778	10.2	17.9	9.0
FY19E	22,853	2,275	10.0%	975	12.8	14.3	7.6

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Quarterly financial results

Quarterly Financial Results					
Rs. mn\Period	Dec-16	Dec-15	yoy %	Sep-16	qoq %
Revenue	4,467	3,887	14.9%	4,504	-0.8%
Total Expenditure	4,092	3,563	14.8%	4,072	0.5%
EBITDA	376	324	16.0%	433	-13.1%
EBITDA Margin %	8.4%	8.3%	10 bps	9.6%	-120 bps
D&A	152	123	23.5%	137	11.2%
EBIT	223	201	11.4%	296	-24.4%
Other income	52	1	7285.7%	19	176.5%
Net Interest exp (inc)	68	58	17.1%	68	-0.7%
PBT	207	143	44.7%	246	-15.7%
Tax provision	38	26	44.7%	49	-21.6%
Tax rate %	18.4%	18.4%	0.0%	19.8%	-138 bps
PAT (Reported)	169	207	-18.4%	197	-14.2%
PAT (Adjusted)	169	117	44.7%	197	-14.2%
Margin %	3.8%	3.0%	80 bps	4.4%	-60 bps
Shares Outstanding	76	76		76	
EPS (Adjusted)	2.2	1.5	44.7%	2.6	-14.2%

Revenue growth was driven by Incremental volumes from capital goods and engineering companies in Freight division registering 10% YoY growth for 3QFY17. SCS and seaways division reported 25% and 13% YoY growth, respectively

EBITDA margins declined ~120 bps QoQ as margins dipped across all major segments. The incremental contribution from freight division to top line (up from 48% to 49%) also a key factor in QoQ margin drop.

Other income came in higher than expectation due to annual dividend payout by JV's

SOTP Valuation

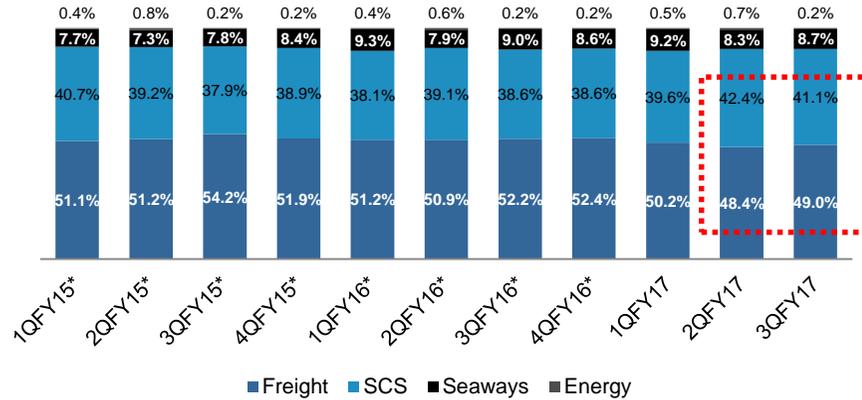
	FY19 EBITDA (Rs. Mn)	EV/EBITDA (x)	EV (Rs. Mn)
TCI Freight	433	2.5	1,084
TCI SCS	1,143	12.0	13,717
TCI Seaways	628	6.5	4,084
Others	70	5.5	384
Net Debt (Rs. Mn)			3,260
Market Cap (Rs. Mn)			16,009
Target Price			210

Transport Corporation of India (TRPC)

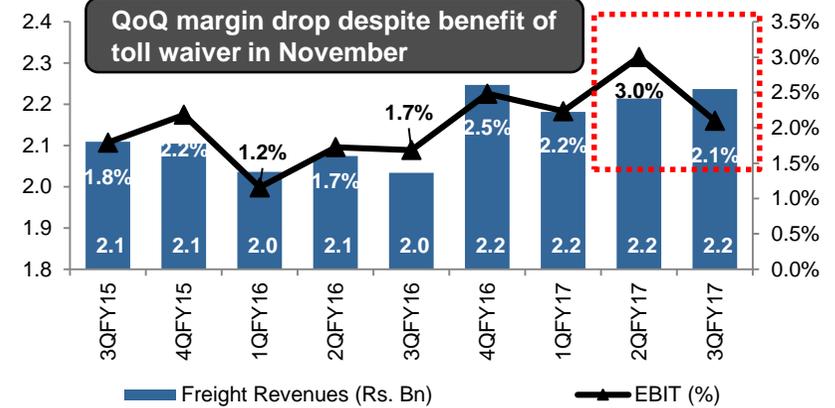
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Segment wise financial summary

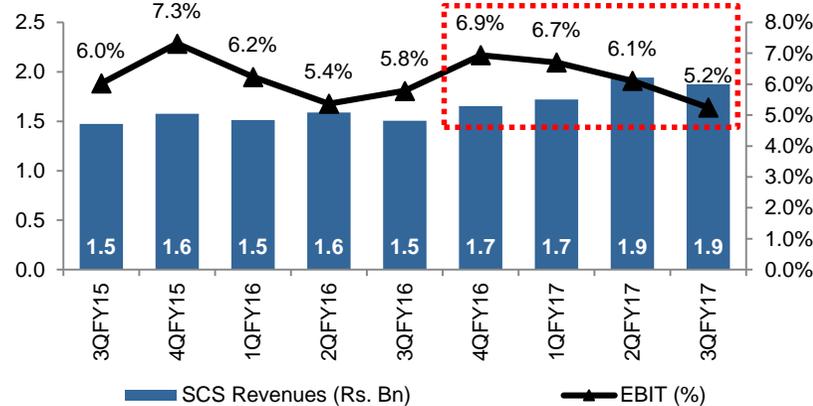
Revenue contribution – SCS loses share to freight segment



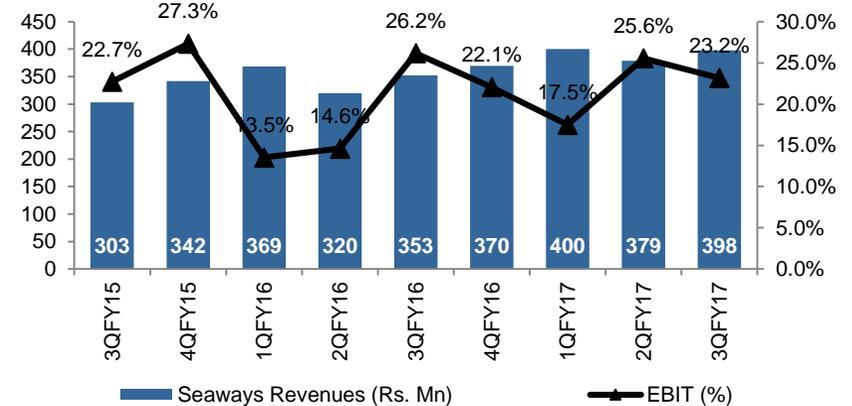
Freight: Topline grew 10% YoY & EBIT margins improved 40 bps



SCS: OEM production drop leads to QoQ revenue decline of 3.5%



Seaways: Revenues hover around Rs.~400mn; EBIT margins healthy



Source: Company, Spark Capital Research

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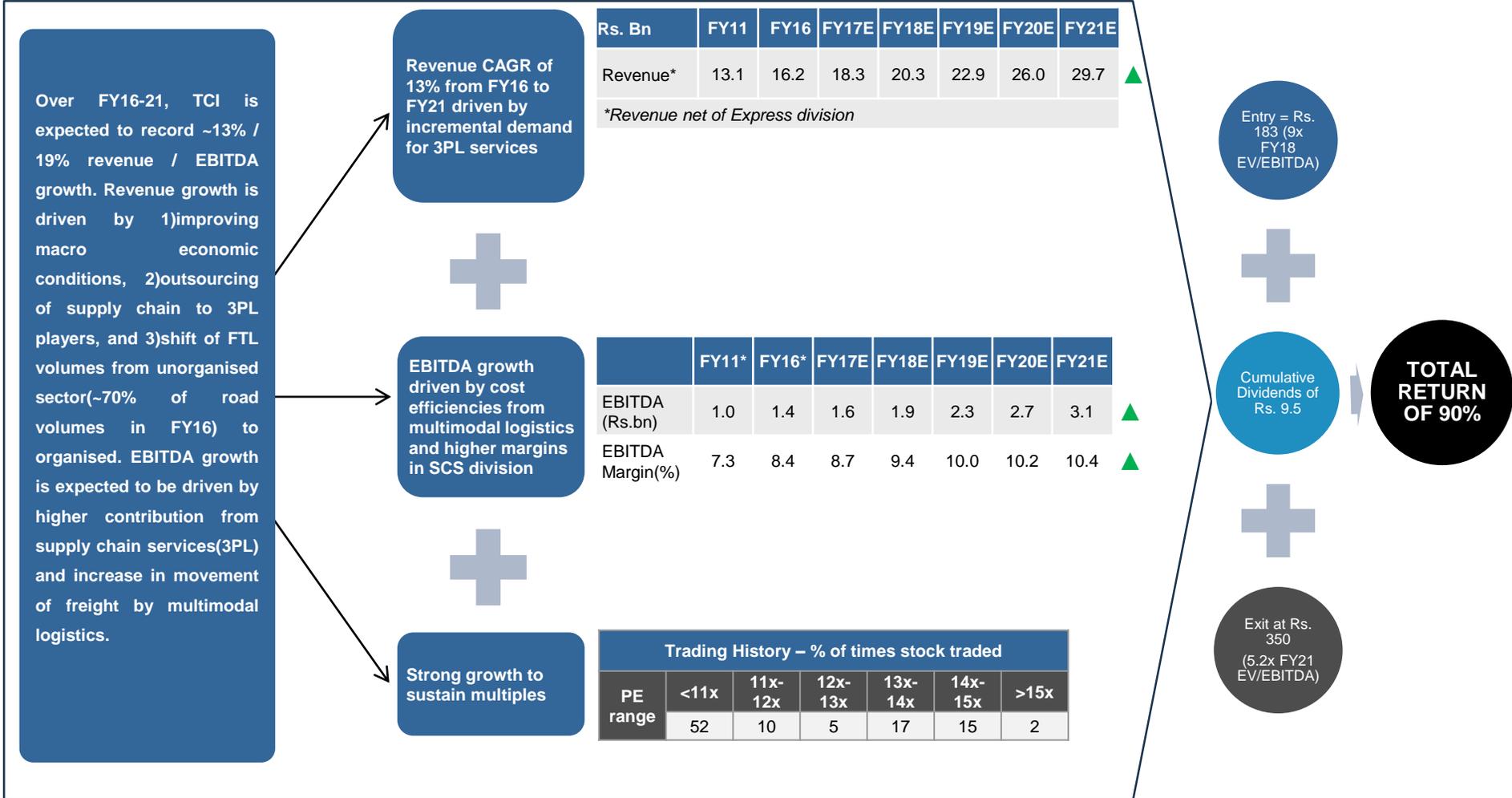
Financial Summary

Abridged Financial Statements						Key metrics					
Rs. mn	FY15	FY16	FY17E	FY18E	FY19E		FY15	FY16	FY17E	FY18E	FY19E
Profit & Loss						Growth ratios					
Revenues	21,967	22,578	18,311	20,327	22,853	Revenues	8.4%	2.8%	-18.9%	11.0%	12.4%
Operating expenses	20,264	20,755	16,463	18,416	20,579	EBITDA	14.1%	7.0%	-12.3%	19.5%	19.1%
EBITDA	1,704	1,823	1,599	1,911	2,275	PAT	22.5%	12.0%	-21.1%	15.9%	25.2%
Depreciation	495	539	586	681	768	Margins					
EBIT	1,209	1,284	1,013	1,230	1,506	EBITDA	7.8%	8.1%	8.7%	9.4%	10.0%
Net Interest Exp / (inc)	195	160	178	192	207	EBIT	5.5%	5.7%	5.5%	6.1%	6.6%
Profit Before Tax	1,012	1,124	834	1,038	1,300	PAT	3.5%	3.8%	3.7%	3.8%	4.3%
Tax	252	273	163	259	325	Leverage & WC ratios					
Adj. Net Profit	759	850	671	778	975	Debt to equity (x)	0.5	0.7	0.6	0.6	0.5
Balance Sheet (Rs. mn)						Current ratio (x)					
Shareholders Equity	5,612	4,917	5,450	6,091	6,928	Debt to equity (Sales)	3.70	3.79	3.86	3.92	4.10
Loan funds	3,068	3,394	3,342	3,474	3,509	Creditor Days	65	51	51	51	51
Sources of funds	9,165	8,810	9,292	10,065	10,938	Working Capital Days (Sales)	13	10	9	9	9
Net block	4,783	5,169	6,033	6,726	7,207	Performance & turnover ratios					
Investments	444	231	231	231	231	RoACE (%)	11.3	11.4	9.5	10.1	11.3
Capital WIP	68	123	123	-	-	RoAE (%)	15.2	16.2	12.9	13.5	15.0
Current assets, loans & advances	5,303	4,464	3,920	4,174	4,630	Total asset turnover (x)	2.57	2.51	2.02	2.10	2.18
Current liabilities & provisions	1,433	1,177	1,015	1,066	1,130	Fixed asset turnover (x)	2.92	2.81	1.93	1.87	1.89
Net Current Assets	3,870	3,287	2,905	3,108	3,500	Valuation metrics					
Application of funds	9,165	8,810	9,293	10,065	10,938	Current price (Rs.)	183				
Cash Flows (Rs. mn)						Shares outstanding (mn)	76	76	76	76	76
Cash flows from operations	1,261	2,330	1,689	1,229	1,454	Market capitalisation (Rs. mn)	13,848	13,921	13,921	13,921	13,921
Cash flows from investments	(1,471)	(988)	(1,450)	(1,250)	(1,250)	Enterprise value (Rs. mn)	16,751	17,191	17,090	17,248	17,181
Cash flows from financing	203	(1,383)	(189)	(6)	(102)	EV/EBITDA (x)	9.8	9.4	10.7	9.0	7.6
Capex	1,163	552	1,450	1,250	1,250	Adj. Per-share earnings (Rs.)	10.0	11.2	8.8	10.2	12.8
Free cashflow	97	1,778	239	(21)	204	Price-earnings multiple (x)	18.2	16.4	20.7	17.9	14.3
Closing cash	165	124	173	147	250	Dividend yield (%)	0.8	0.8	0.8	0.8	0.8

Transport Corporation of India (TCI)

Crystal Ball Gazing

FY11-16 CAGR %			
Revenue	EBITDA	PAT	Price
5.1%	6.1%	10.6%	47%



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Spark Disclaimer



Report Date	Price	Target	Reco.
14/Dec/16	176	205	Buy

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Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

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