

## Transport Corporation of India

**BUY**



Asian Markets Securities Pvt. Ltd.

**Growth moderated but least affected amongst peers**

### Institutional Research

CMP (Rs)	283
Target (Rs)	360
Upside (%)	27%

Nifty: 11,986      Sensex: 40,556

### Key Stock Data

Bloomberg	TRPC IN
Shares O/s Mn (FV INR10)	76.7
Mkt Cap(USD Mn/INR Bn)	0.3/21.7
52-week high/low	330/250
6m daily avg vol(INR Mn)	10
Free Float %	35

### Price Performance

(%)	3m	1yr	3yr
TRPC	7.5	3.2	15.5
Nifty	10.8	14.6	13.7
NSE500	10.4	10.5	11.4
BSE Midcap	10.4	10.5	5.8

  

	2yr	3yr	5yr
Avg.PER (x)	14.2	14.6	17.6

### Shareholding Pattern

(%)	Mar19	Jun19	Sep19
Promoter	66.9	66.9	66.8
FII	4.5	4.5	4.5
DII	8.5	9.3	9.2
Others	20.1	19.2	19.5

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On the back of sluggish demand environment, TCI witnessed a muted growth especially in its SCM division where it derives large part of its revenue from auto industry. Sales growth of 1.3% y-o-y to Rs 6.3bn was lower than our estimates due to lower than expected growth in SCM division. Its largest trucking division grew by 4.3% y-o-y to Rs 3.1bn. SCM division was sluggish and reported a 5.4% y-o-y decline due to ongoing slowdown in auto sector. However, further decline was restrained by new order contracts, diversified portfolio in auto segment and incremental revenue from warehousing segment. The Coastal shipping division reported a y-o-y growth of 8.3% which was bit tepid as compared to healthy growth traction in last few quarters due to seasonality and increasing competition. EBITDA margin improved by 40bps y-o-y to 9% mainly due to stable fuel price prices and higher growth in better margin LTL segment. PBT grew by 16.3% y-o-y to Rs 382mn. Relatively higher earnings growth was on the back of margin expansion along with lower depreciation and interest outlays. Reported net Profit increased by 29% y-o-y to Rs 333mn. Net profit includes asset impairment of Rs 98mn and tax credit of Rs 106mn. Overall, all segments witnessed a growth moderation due to slower demand. However, it is expected to see growth recovery in 2HFY20 albeit at moderate pace. We don't expect meaningful recovery in SCM over the medium term due to ongoing slowdown in auto segment. Maintain 'BUY'

### Growth moderation across segments but SCM impacted the most

On the back of sluggish economic environment, all its segments witnessed a growth moderation but SCM impacted the most. We believe underline volume growth would be flat. Its largest trucking division reported a y-o-y growth of 4.3% to Rs 3.1bn. Slower goods movement across sectors and large base (28% growth in the base quarter) resulted in growth moderation in freight division especially in FTL. Its higher margin LTL business continues to do well and should have grown at high single digit and contributes 1/3rd of its trucking revenues. Going ahead we believe the growth in trucking division will see 8-10% mainly on account of higher growth traction in LTL segment and modest growth recovery in FTL segment. We expect FTL and LTL segments to grow at ~5% and 15% respectively over the medium term. Though there are enough growth opportunities for FTL segment, but the management doesn't want to 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 also witnessed a growth moderation due to tepid demand environment and increasing competition. Sales grew by 8.3% y-o-y to Rs 854mn on a high base (+36% Q2FY19). During the quarter, company have bought one more ship at cost of Rs 0.5bn with capacity of 28,000 DWT to increase presence in west-south coast of India with this the company's coastal division now has 7 ships. Management has alluded that Coastal business will witness a recovery in 1HFY20 and expect stable EBIT margin at 20-25%.

### Muted growth in SCM albeit on a higher base and slowdown in domestic auto sector

Muted performance was on account of sluggish domestic auto sector which contributes 3/4th pf SCM's total revenue. However, further decline was restrained by new order contracts, diversified portfolio in auto segment and incremental revenue from warehousing business mainly from ecommerce segment. Despite generating significant revenue from automobile sector, SCM division is least affected as compared to other SCM players from ongoing slowdown in auto sector mainly because of 1) Diversified and larger pool of client base 2) Sizable inbound logistics business 3) diversified services within the auto logistics and 4) servicing to multiple automobile segments like CVs, Two wheelers, PVs, Tractors, industrials etc. Over the near term, we don't expect meaningful recovery in SCM segment on the back of ongoing slowdown in auto segment. However, we remain positive on SCM business over the medium to longer term on the back of superior offerings, wide client base and hybrid business model.

### Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Sales	19,427	23,461	27,537	29,618	33,942
yoy (%)	12.5	20.8	17.4	12.0	14.8
EBITDA	1,607	2,127	2,495	2,666	3,225
yoy (%)	25.2	32.4	17.3	17.4	18.4
PAT	813	1,238	1,453	1,571	2,122
yoy (%)	43.7	52.4	17.3	18.9	22.9
EBITDAM (%)	8.3%	9.1%	9.1%	9.0%	9.5%
NPM (%)	4.2%	5.3%	5.3%	5.3%	6.3%
EPS (Rs)	10.6	16.2	19.0	20.5	27.7

Source: Company, AMSEC Research

### Exhibit 2: Key Indicators

Y/E Mar	FY17	FY18	FY19	FY20E	FY21E
Equity	153.2	153.2	153.3	153.3	153.3
RoE (%)	13.3	17.6	17.6	16.2	18.6
RoCE (%)	11.8	14.8	15.6	14.3	15.7
ROIC (%)	10.8	13.6	14.4	15.1	16.5
D:E (x)	0.6	0.5	0.5	0.4	0.4
PER (x)	26.7	17.5	14.9	13.8	10.2
P/BV (x)	3.3	2.8	2.4	2.1	1.8
EV/Sales (x)	1.3	1.1	0.9	0.9	0.8
EV/EBITDA (x)	15.7	12.0	10.3	9.7	8.0

**Despite muted revenues growth, EBITDA margin improved by 40bps y-o-y to 9%**

EBITDA margin improved by 40bps y-o-y to 9% on the back of stable fuel prices and higher growth in better margin LTL segment. Transport division has been witnessing favorable change in its sales mix towards high margin LTL segment where the margin is almost double of margin FTL segment. Despite growth moderation, Trucking division and coastal shipping witnessed a decent margin improvement, except SCM segment which reported a decline. PBT grew by 16.3% y-o-y to Rs 382mn. Relatively higher earnings growth was on the back of margin expansion along with lower depreciation and interest outlays.

**Capex plan trimmed down to Rs 1.3bn**

Due to growth moderation across segments, TCI has trimmed down its earlier capex guidance of Rs 2-2.5bn to Rs 1.3bn in FY20. In H1FY20, it incurred capex of Rs 1.08bn (Ship addition - Rs 0.5bn, trucks -Rs 180mn and others Rs 400mn).

**Outlook & Valuation**

We expect, TCI to see CAGR of 11% and 21% in consolidated revenues and earnings respectively over the next two years. The strategy to focus more on higher margin services would enhance its profitability in coming years. Further, better growth traction LTL segment will also support the margin expansion. GST implication is acting as growth catalyst for large SCM players like TCI and will fetch the larger basket of growth avenues. However, we see some growth moderation in SCM division over the near-medium term on the back of ongoing slowdown in automobile sector. At CMP, TCI is trading at 14x FY20E and 10x FY21E consolidated earnings. We maintain 'Buy' rating on TCI with a price target of Rs 360, based on 13x FY21E earnings.

**Exhibit 3: 1QFY20 Quarterly Financials (Standalone)**

Particulars (Rs. mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Y-o-y change	q-o-q change	1HFY20	1HFY19	Y-o-y change
<b>Income from operations</b>	<b>6,203</b>	<b>6,625</b>	<b>6,918</b>	<b>6,121</b>	<b>6,282</b>	<b>1.3%</b>	<b>2.6%</b>	<b>12,403</b>	<b>12,018</b>	<b>3.2%</b>
Less: Expenditures										
Operating cost	5,066	5,438	5,475	4,942	5,062	-0.1%	2.4%	10,004	9,781	2.3%
Staff cost	347	340	338	372	374	7.8%	0.3%	746	680	9.7%
Other expenses	259	242	334	245	281	8.7%	15.0%	526	513	2.5%
<b>EBITDA</b>	<b>531</b>	<b>605</b>	<b>771</b>	<b>562</b>	<b>566</b>	<b>6.5%</b>	<b>0.6%</b>	<b>1,128</b>	<b>1,044</b>	<b>8.0%</b>
Other Income	81	81	46	75	84	2.8%	10.9%	159	164	-2.9%
Depreciation	191	205	189	186	190	-0.4%	2.0%	376	359	4.9%
<b>EBIT</b>	<b>422</b>	<b>482</b>	<b>628</b>	<b>451</b>	<b>459</b>	<b>8.9%</b>	<b>1.8%</b>	<b>911</b>	<b>849</b>	<b>7.2%</b>
Interest	93	102	91	82	77	-17.2%	-6.6%	159	163	-2.4%
Profit Before Tax	<b>329</b>	<b>380</b>	<b>537</b>	<b>369</b>	<b>382</b>	<b>16.3%</b>	<b>3.7%</b>	<b>751</b>	<b>686</b>	<b>9.5%</b>
Tax	70	80	101	72	(49)	-170.1%	-168.7%	22	145	-84.6%
<b>Profit after Tax</b>	<b>259</b>	<b>300</b>	<b>436</b>	<b>297</b>	<b>432</b>	<b>66.8%</b>	<b>45.1%</b>	<b>729</b>	<b>541</b>	<b>34.8%</b>
Extraordinary items	-	-	-	-	(99)	NA	NA	(99)	-	NA
<b>Net Profit</b>	<b>259</b>	<b>300</b>	<b>436</b>	<b>297</b>	<b>333</b>	<b>28.6%</b>	<b>11.9%</b>	<b>630</b>	<b>541</b>	<b>16.5%</b>
EPS	3.37	3.91	5.69	3.88	4.34	28.6%	11.9%	8.2	7.1	16.5%
<b>Operating Matrix</b>						bps	bps			bps
Operating cost/Sales	81.7%	82.1%	79.1%	80.7%	80.6%	(111)	(16)	80.7%	81.4%	(73)
Staff cost/Sales	5.6%	5.1%	4.9%	6.1%	5.9%	36	(14)	6.0%	5.7%	36
Others/Sales	4.2%	3.6%	4.8%	4.0%	4.5%	31	48	4.2%	4.3%	(3)
EBITDA Margin	8.6%	9.1%	11.1%	9.2%	9.0%	44	(18)	9.1%	8.7%	40
Net Margin	4.2%	4.5%	6.3%	4.9%	5.3%	112	44	5.1%	4.5%	58
ETR	21.3%	21.1%	18.8%	19.4%	-12.8%	(3,414)	(3,222)	3.0%	21.2%	(1,820)

Source: Company, AMSEC Research,

**Exhibit 4: 2QFY20 Segmental Highlights (Standalone)**

Particulars (Rs. mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Y-o-y change	q-o-q change	1HFY20	1HFY19	Y-o-y change
<b>Revenue</b>				<b>9.6%</b>						
Transport	2,932	3,112	3,270	2,990	3,058	4.3%	2.3%	6,048	5,715	5.8%
SCM	<b>9.1%</b>	<b>51.7%</b>	<b>46.2%</b>	<b>10.3%</b>	<b>8.3%</b>			0	0	
Coastal	2,552	2,608	2,654	2,391	2,413	-5.4%	0.9%	4,804	4,927	-2.5%
Wind Power	788	1,002	1,088	789	854	8.3%	8.3%	1,643	1,503	9.3%
Intersegments/ Others	33	6	7	15	30	-11.1%	102.0%	44	56	-20.9%
<b>Total</b>	<b>(103)</b>	<b>(104)</b>	<b>(100)</b>	<b>(63)</b>	<b>(73)</b>	<b>-29.4%</b>	<b>16.5%</b>	<b>(135)</b>	<b>(183)</b>	<b>-26.3%</b>
<b>EBIT</b>										
Transport	82.1	100.3	131.6	83.0	90.7	10.5%	9.3%	173.7	151.6	14.6%
SCM	184.1	155.1	208.4	167.5	160.1	-13.0%	-4.4%	327.6	346.8	-5.5%
Coastal	116.2	188.3	294.1	156.5	145.4	25.1%	-7.1%	301.9	252.6	19.5%
Wind Power	24.6	(2.7)	(1.9)	5.3	20.4	-17.1%	284.9%	25.7	38.7	-33.6%
<b>Total</b>	<b>407.0</b>	<b>441.0</b>	<b>632.2</b>	<b>412.3</b>	<b>416.6</b>	<b>2.4%</b>	<b>1.0%</b>	<b>828.9</b>	<b>789.7</b>	<b>5.0%</b>
<b>EBIT Margin</b>						bps	bps			
Transport	2.8%	3.2%	4.0%	2.8%	3.0%	17	19.0	2.9%	2.7%	21.9
SCM	7.2%	5.9%	7.9%	7.0%	6.6%	(58.0)	(37.2)	6.8%	7.0%	(21.9)
Coastal	14.7%	18.8%	27.0%	19.8%	17.0%	228.9	(281.8)	18.4%	16.8%	157.9
Wind Power	73.7%	-45.0%	-26.4%	36.1%	68.7%	(496.6)	3,263.2	57.9%	69.0%	(1,110.1)
<b>Total</b>	<b>6.6%</b>	<b>6.7%</b>	<b>9.1%</b>	<b>6.7%</b>	<b>6.6%</b>	<b>7.0</b>	<b>(10.4)</b>	<b>6.7%</b>	<b>6.6%</b>	<b>11.2</b>

Source: Company, AMSEC Research

**Financials (Consolidated)****(Rs mn)**

Profit and Loss Account						Cash Flow Statement					
Y/E (Mar)	FY17	FY18	FY19	FY20E	FY21E	Y/E (Mar)	FY17	FY18	FY19	FY20E	FY21E
<b>Operating Income</b>	<b>19,427</b>	<b>23,461</b>	<b>27,537</b>	<b>29,618</b>	<b>33,942</b>	PBT	1,004	1,525	1,786	1,541	2,126
Other operating income						Non-cash adjustments	869	1,005	1,141	1,235	1,339
Operating expenses	15,821	19,068	22,515	23,991	27,324	Chg in working capital	(637)	(342)	(719)	(336)	(778)
Staff expenses	1,068	1,245	1,402	1,629	1,867	Tax & Interest Paid	(250)	(368)	(342)	(262)	(340)
Selling, admin and other expenses	931	1,021	1,124	1,333	1,527	<b>Cashflow from oper.</b>	<b>988</b>	<b>1,801</b>	<b>1,830</b>	<b>2,179</b>	<b>2,347</b>
<b>EBITDA</b>	<b>1,607</b>	<b>2,127</b>	<b>2,495</b>	<b>2,666</b>	<b>3,225</b>	Capital expenditure	(1,138)	(1,511)	(1,259)	(1,800)	(1,500)
Depreciation	592	687	774	862	944	Chg in investments	(16)	(8)	56	-	-
<b>Operating profit</b>	<b>1,015</b>	<b>1,441</b>	<b>1,721</b>	<b>1,804</b>	<b>2,280</b>	Other invest. cashflow	(78)	(27)	(373)	-	-
Other income	122	182	195	210	240	<b>Cashflow from invest</b>	<b>(1,231)</b>	<b>(1,546)</b>	<b>(1,576)</b>	<b>(1,800)</b>	<b>(1,500)</b>
<b>EBIT</b>	<b>1,137</b>	<b>1,623</b>	<b>1,916</b>	<b>2,013</b>	<b>2,521</b>	Issue of equity	25	-	12	-	-
Interest	288	322	374	373	395	Issue/repay debt					
Exceptional items	-	-	-	-	-	Interest Paid	(299)	(323)	(377)	(373)	(395)
<b>Profit before tax</b>	<b>849</b>	<b>1,301</b>	<b>1,542</b>	<b>1,640</b>	<b>2,126</b>	Inc./(Dec.) Loan Funds	670	184	307	500	-
Tax	191	287	333	262	340	Dividends paid	(105)	(163)	(182)	(214)	(214)
Profit share in JV & asso.	155	224	251	292	336	Other finan.cashflow	25	-	-	-	-
<b>PAT</b>	<b>813</b>	<b>1,238</b>	<b>1,453</b>	<b>1,571</b>	<b>2,122</b>	<b>Cashflow from finan.</b>	<b>316</b>	<b>(303)</b>	<b>(241)</b>	<b>(87)</b>	<b>(608)</b>
EO Items	-	-	-	-	-	<b>Chg cash &amp; cash eq</b>	<b>73</b>	<b>(48)</b>	<b>13</b>	<b>292</b>	<b>239</b>
<b>Net Profit</b>	<b>813</b>	<b>1,238</b>	<b>1,453</b>	<b>1,571</b>	<b>2,122</b>	<b>Open cash &amp; cash eq</b>	<b>117</b>	<b>190</b>	<b>142</b>	<b>155</b>	<b>447</b>
Share O/s mn	76.6	76.6	76.7	76.7	76.7	<b>Clsg cash &amp; cash eq</b>	<b>190</b>	<b>142</b>	<b>155</b>	<b>447</b>	<b>686</b>
<b>EPS Rs</b>	<b>10.6</b>	<b>16.2</b>	<b>19.0</b>	<b>20.5</b>	<b>27.7</b>	<b>Free cashflow to firm</b>	<b>(150)</b>	<b>291</b>	<b>571</b>	<b>379</b>	<b>847</b>

**Balance Sheet**

Y/E Mar	FY17	FY18	FY19	FY20E	FY21E
<b>SOURCES OF FUNDS :</b>					
Share Capital	153	153	153	153	153
Reserves	6,338	7,465	8,766	10,306	12,215
<b>T. Shareholders Funds</b>	<b>6,491</b>	<b>7,618</b>	<b>8,920</b>	<b>10,459</b>	<b>12,368</b>
Minority interest	43	47	52	52	52
<b>Non-Current Liab.</b>					
Long term borrowings	3,795	3,953	4,142	4,642	4,642
Lease Liability	-	-	-	29	29
Deferred tax liability	395	445	390	390	390
<b>Current Liab. &amp; Prov.</b>	<b>1,595</b>	<b>1,915</b>	<b>2,656</b>	<b>2,858</b>	<b>3,258</b>
<b>Total Equity &amp; Liab.</b>	<b>12,319</b>	<b>13,977</b>	<b>16,160</b>	<b>18,431</b>	<b>20,739</b>
<b>APPLICATION OF FUNDS :</b>					
<b>Non Current Assets</b>					
Fixed Assets	5,894	6,258	7,268	8,206	8,762
Capital work in progress	-	563	40	40	40
Right to use	-	-	-	211	211
Goodwill	-	-	-	-	-
Noncurrent investment	899	1,044	1,168	1,460	1,796
<b>Current Assets</b>					
Inventories	25	33	53	26	30
Sundry debtors	3,570	4,249	5,151	5,540	6,349
Cash and bank	190	142	155	447	686
Short loans & advances	1,741	1,689	2,324	2,500	2,865
<b>Total Assets</b>	<b>12,319</b>	<b>13,977</b>	<b>16,160</b>	<b>18,431</b>	<b>20,739</b>
Net working capital	3,741	4,055	4,872	5,208	5,986
Total Gross Debt	3,795	3,953	4,142	4,642	4,642
Total Net debt	3,606	3,811	3,987	4,195	3,956
Total capital employed	10,724	12,062	13,504	15,573	17,481

**Key Ratios**

Y/E (Mar)	FY17	FY18	FY19	FY20E	FY21E
<b>PER SHARE</b>					
EPS Rs	10.6	16.2	19.0	20.5	27.7
CEPS Rs	18.3	25.1	29.1	31.7	40.0
Book Value Rs	84.7	99.4	116.4	136.4	161.3
<b>VALUATION</b>					
EV / Net Sales	1.3	1.1	0.9	0.9	0.8
EV / EBITDA	15.7	12.0	10.3	9.7	8.0
P / E Ratio	26.7	17.5	14.9	13.8	10.2
P / BV Ratio	3.3	2.8	2.4	2.1	1.8
<b>GROWTH YOY%</b>					
Sales Growth	12.5	20.8	17.4	7.6	14.6
EBITDA Growth	25.2	32.4	17.3	6.8	21.0
Net Profit Growth	43.7	52.4	17.3	8.1	35.1
Gross Fixed Asset Growth	10.7	9.8	15.2	13.3	9.8
<b>PROFITABILITY</b>					
Gross Profit/ Net sales ( %)	-	-	-	-	-
EBITDA / Net Sales (%)	8.3	9.1	9.1	9.0	9.5
EBIT / Net sales (%)	5.9	6.9	7.0	6.8	7.4
NPM / Total income (%)	4.2	5.3	5.3	5.3	6.3
ROE (%)	13.3	17.6	17.6	16.2	18.6
ROCE (%)	11.8	14.8	15.6	14.3	15.7
Tax / PBT %	22.5	22.0	21.6	16.0	16.0
<b>TURNOVER</b>					
Net Working Cycle	-	-	-	-	-
Debtors Velocity (Days)	67.1	66.1	68.3	68.3	68.3
Inventory (Days)	0.6	0.6	0.9	0.4	0.4
Creditors Velocity (Days)					
Current Ratio	3.5	3.2	2.9	3.0	3.0
Quick Ratio	3.4	3.2	2.9	3.0	3.0
<b>LIQUIDITY</b>					
Gross Asset Ratio	1.9	2.1	2.2	2.0	2.1
Total Asset Ratio	1.9	2.1	2.2	2.0	2.1
Net Debt-Equity Ratio	0.6	0.5	0.4	0.4	0.3
Interest Coverage	3.5	4.5	4.6	4.8	5.8
<b>PAYOUT</b>					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	68.4	106.7	119.0	139.3	139.3
Yield %	0.5	0.8	0.8	1.0	1.0

Source: Company, AMSEC Research;

### Recommendation rationale

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

### Sector rating

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

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