TRANSPORT CORPORATION OF INDIA

Rating: ◄► | Target price: ▲ | EPS: ▲

CMP	1Y Target	Rating
Rs. 300	Rs. 340	BUY

SPARK CAPITAL

ONE YEAR OUTLOOK

BUSINESS & EARNINGS ▲

- 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 GST 2)government thrust on coastal shipping providing incremental volumes (TCI Seaways) and 3)shifting focus towards multi-modal transportation involving sea, rail and road providing cost effective logistic solutions. TRPC's is well placed to capitalise on its infrastructure, wide reach and established market position in an evolving logistics space.
- We are positive on SCS growth prospects (revenue CAGR 22% FY17-19), driven by GST, as multiple sectors (FMCG, chemicals, e-com, retail etc.) are expected to move towards 3PL solutions. SCS revenues grew 15% in 1Q18 (higher than Auto OEM – ~70% of segment).
- Expect freight division to benefit from 1) unorganised truckers losing out as manufacturers seeks value beyond transportation and 2) multi-modal focus. However, competition from tech start-ups and gaining prominence of LTL will pose structural challenge. Expect revenue CAGR of ~11% (FY17-19E).
- Additional routes catered by new ship aided Seaways' revenue growth in 1QFY18 (26% YoY). Expect revenue & EBITDA CAGR of 32% & 33% (FY17-19).

VALUATION MULTIPLES ▲

- Valuing the stock based on SOTP (page 3) to arrive at TP of Rs.340. We up our multiple on SCS division (14x FY19 EVEBITDA) as strong revenue growth aided by GST combined with sustained margins (EBITDA CAGR of 29% from FY17-19) is expected to generate healthy operating cashflows. However, expect additional capex (Rs. 6bn in FY18-19), primarily towards warehouse expansion, to constrain FCF growth over the period.

FINANCIAL SUMMARY

Year	Revenue (Rs. mn)	EBITDA (%)	PAT (Rs.mn)	EPS (Rs.)	P/E (x)	EV/ EBITDA (x)
FY17	18,042	8.7%	703	9.2	32.5	16.6
FY18E	21,193	9.3%	902	11.9	25.3	13.5
FY19E	25,076	10.4%	1,300	17.1	17.6	10.2

THREE YEAR OUTLOOK

BUSINESS & EARNINGS ▲

- Macro economic growth coupled with shift of volumes from unorganised sector to organised is expected to drive TRPC's revenue and EBITDA CAGR of 16% and 23%, respectively, through FY17-21.
- TRPC's established infrastructure, long standing customer relationships and experienced management team (vintage of ~four decades) is expected to aid its position as being a preferred 3PL partner. Furthermore, presence across multimodal logistics value chain (JV with Concor for rail transportation and fleet of ships for waterway transportation) allows TRPC to provide efficient end-to-end logistics solutions.
- Government thrust on coastal shipping with new initiatives under Sagarmala is expected to drive volume growth in Seaways division.
- Expect disruption from tech enabled start-ups to result in significant competition in FTL segment. Expect freight division share of overall revenues to reduce from 51% in FY17 to ~40% by FY21.

VALUATION MULTIPLES ▲

- Improving operating cashflows combined with reducing debt is expected to increase RoCE (9% in FY17 to ~15% in FY21E) and improve FCF yield (average of ~2% through FY18-FY21E)
- SCS division's improving operating leverage (revenue and EBITDA CAGR of 21% and 25% through FY17-21E) supports upward revision of multiple.

KEY ESTIMATES REVISION

	FY18E			FY19E		
	Old	New	Change	Old	New	Change
Revenue	20,428	21,193	3.7%	23,275	25,076	7.7%
EBITDA	1,912	1,978	3.4%	2,415	2,612	8.1%
Margin (%)	9.4%	9.3%	-3 bps	10.4%	10.4%	4 bps
PAT	811	902	11.3%	1,097	1,300	18.5%
PAT (%)	4.0%	4.3%	29 bps	4.7%	5.2%	47 bps
EPS	10.7	11.9	11.2%	14.4	17.1	18.6%

All figures in Rs. mn

OUTLOOK REVIEW 1QFY18
AUGUST 4, 2017

Industry	LOGISTICS
CMP	Rs. 300
Target Price	Rs. 340
Key Stock Data	
Bloomberg	TRPC IN
Shares o/s	76mn
Market Cap	Rs. 23bn
52-wk High-Low	Rs. 350-143
3m ADV	Rs. 41mn
Index	BSE500

	Dec'16	Mar'17	Jun'17
Promoters	66.1	66.1	66.1
Institutions	11.0	10.8	11.2
Public	22.9	23.1	22.7
Pledge			

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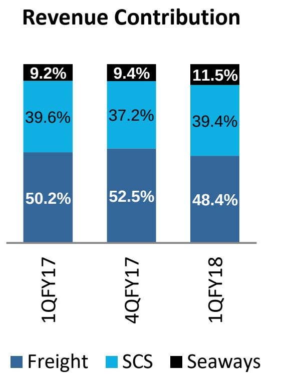
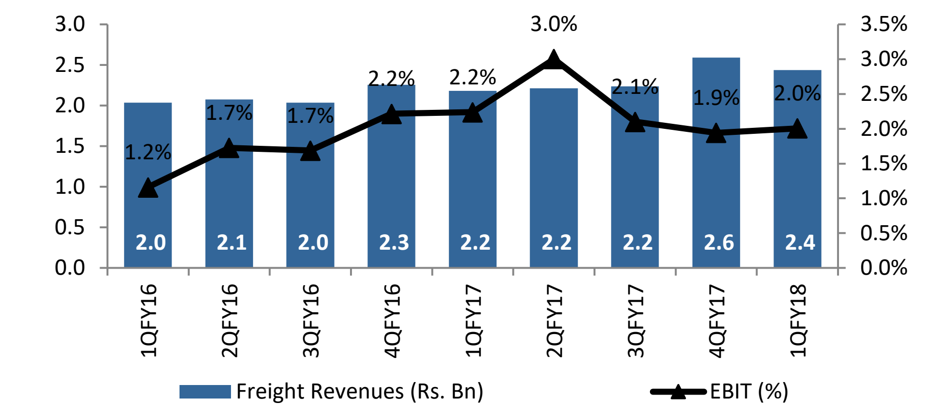


Quarterly Financial Statement

STANDALONE FINANCIAL RESULTS

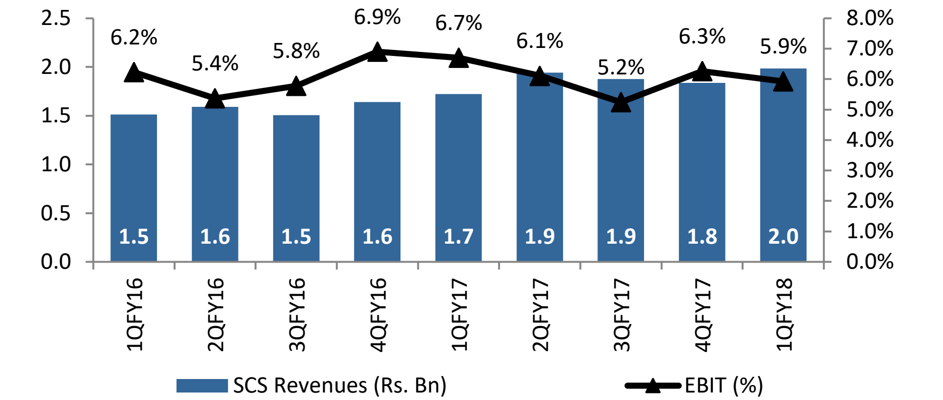
Rs. mn\Period	1QFY18	1QFY17	yoy Growth	4QFY17	qoq Growth	FY17	FY18E	yoy Growth
Revenue	**4,969**	**4,274**	**16.2%**	**4,816**	**3.2%**	**18,042**	**21,193**	**17.5%**
Operating expense	3,981	3,425	16.2%	3,903	2.0%	14,541	16,982	16.8%
Emp. cost	287	252	13.7%	280	2.5%	1,035	1,260	21.8%
Other expenses	250	217	15.2%	240	3.8%	892	973	9.1%
Total Expenditure	4,517	3,894	16.0%	4,423	2.1%	16,468	19,215	16.7%
EBITDA	**452**	**381**	**18.7%**	**393**	**14.9%**	**1,575**	**1,978**	**25.6%**
Margin %	9.1%	8.9%	19 bps	8.2%	93 bps	8.7%	9.3%	61 bps
D&A	160	141	13.9%	148	7.9%	578	645	11.5%
EBIT	**292**	**240**	**21.6%**	**245**	**19.1%**	**996**	**1,333**	**33.8%**
Other income	9	23	-59.5%	64	-85.3%	177	188	6.0%
Net Interest exp (inc)	78	75	5.2%	64	23.5%	286	318	11.0%
PBT	**223**	**189**	**18.1%**	**246**	**-9.3%**	**888**	**1,203**	**35.6%**
Tax provision	47	38	23.3%	60	-22.8%	185	301	62.7%
Tax rate %	20.9%	20.0%	**4.5%**	24.5%	-364 bps	20.8%	25.0%	417 bps
PAT (Reported)	**176**	**151**	**16.8%**	**185**	**-4.9%**	**703**	**902**	**28.4%**
PAT (Adjusted)	**176**	**151**	**16.8%**	**185**	**-4.9%**	**703**	**902**	**28.4%**
Adjusted PAT Margin %	3.5%	3.5%	2 bps	3.8%	-30 bps	3.9%	4.3%	36 bps
Shares Outstanding	76	76		76		76	76	
EPS (Reported)	**2.3**	**2.0**	**16.8%**	**2.4**	**-4.9%**	**9.2**	**11.9**	**28.4%**
EPS (Adjusted)	**2.3**	**2.0**	**16.8%**	**2.4**	**-4.9%**	**9.2**	**11.9**	**28.4%**

Freight: Revenues grew 12% YoY while EBIT margins declined 20 bps



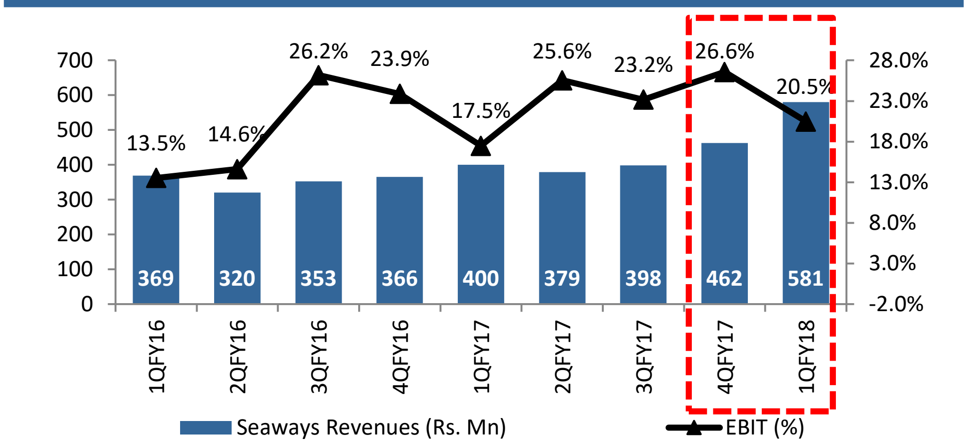
Source: Company, Spark Capital Research

SCS: 15% revenue growth higher than PV and 2W OEM production of 9%



Source: Company, Spark Capital Research

Seaways: Revenue growth driven by addition of ship operating on new route



Source: Company, Spark Capital Research

SOTP Valuation

	FY19 EBITDA (Rs. Mn)	EV/EBITA (x)	EV (Rs. Mn)
TCI Freight	433	5.5	2,380
TCI SCS	1,287	14.0	18,019
TCI Seaways	894	9.5	8,495
Others	83	5.5	454
Net Debt (Rs.mn)			3,746
Market Cap (Rs.mn)			25,601
Target Price			**340**

Financial Summary

Abridged Financial Statement								
Rs. mn	FY13*	FY14*	FY15*	FY16*	FY17	FY18E	FY19E	FY20E
Profit & Loss								
Revenue	**19,512**	**20,273**	**21,967**	**22,578**	**18,042**	**21,193**	**25,076**	**29,135**
Gross profit	15,803	16,412	17,648	17,836	14,541	16,982	20,209	23,480
EBITDA	**1,449**	**1,493**	**1,704**	**1,823**	**1,575**	**1,978**	**2,612**	**3,125**
Depreciation	421	424	495	539	578	645	750	840
EBIT	1,028	1,069	1,209	1,284	996	1,333	1,862	2,285
Other Income	54	57	124	122	177	188	203	226
Interest expense	322	297	319	282	286	318	331	325
Exceptional items	4	0	2	0	0	0	0	0
PBT	757	829	1,012	1,124	888	1,203	1,734	2,186
Reported PAT (after minority interest)	519	620	759	851	703	902	1,300	1,639
Adj PAT	**515**	**620**	**758**	**850**	**703**	**902**	**1,300**	**1,639**
EPS (Rs.)	**7.1**	**8.5**	**10.0**	**11.2**	**9.2**	**11.9**	**17.1**	**21.5**
Balance Sheet								
Net Worth	3,883	4,400	5,612	4,917	5,809	6,553	7,751	9,289
Deferred Tax	314	327	285	320	392	392	392	392
Total debt	3,324	3,045	3,068	3,394	4,066	4,403	4,421	4,245
Other liabilities and provisions	619	671	941	819	318	364	421	481
Total Networth and liabilities	8,139	8,443	9,905	9,449	10,584	11,711	12,986	14,407
Gross Fixed assets	6,062	6,247	7,524	8,021	8,761	10,629	11,929	13,329
Net fixed assets	3,914	3,836	4,783	5,169	5,325	6,548	7,098	7,659
Capital work-in-progress	30	182	68	123	568	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Investments	332	452	444	231	298	298	298	298
Cash and bank balances	165	173	165	124	184	483	675	983
Loans & advances and other assets	820	955	1,176	1,192	1,601	1,607	1,614	1,621
Net working capital	2,878	2,846	3,268	2,609	2,608	2,775	3,301	3,847
Total assets	**8,139**	**8,443**	**9,905**	**9,449**	**10,584**	**11,711**	**12,986**	**14,407**
Capital Employed	7,521	7,772	8,964	8,630	10,266	11,347	12,564	13,926
Invested Capital (CE - cash - CWIP)	7,326	7,417	8,731	8,383	9,514	10,864	11,889	12,943
Net debt	3,159	2,872	2,903	3,270	3,882	3,920	3,746	3,262
Cash Flows								
Cash flows from Operations (Pre-tax)	1,205	1,633	1,455	2,567	1,654	1,722	2,008	2,532
Cash flows from Operations (post-tax)	1,017	1,429	1,261	2,330	1,387	1,421	1,575	1,986
Capex	595	556	1,416	1,750	1,156	1,300	1,300	1,400
Free cashflows	422	872	-156	580	231	121	275	586
Free cashflows (post interest costs)	100	576	-475	298	-55	121	275	586
Cash flows from Investing	-688	-720	-1,471	-988	-1,629	-1,300	-1,300	-1,400
Cash flows from Financing	-294	-702	203	-1,383	322	178	-83	-277
Total cash & liquid investments	165	173	165	124	184	483	675	983

**Includes financials of TCI XPS segment (demerged in FY17)*

Financial Summary

Abridged Financial Statement	FY13*	FY14*	FY15*	FY16*	FY17	FY18E	FY19E	FY20E
Growth ratios								
Revenue	6.7%	3.9%	8.4%	2.8%	12.9%^	17.5%	18.3%	16.2%
EBITDA	0.2%	3.1%	14.1%	7.0%	17.7%^	25.6%	32.1%	19.6%
Adj PAT	0.1%	19.6%	22.5%	12.0%	18.0%^	28.4%	44.1%	26.1%
Margin ratios								
Gross	81.0%	81.0%	80.3%	79.0%	80.6%	80.1%	80.6%	80.6%
EBITDA	7.4%	7.4%	7.8%	8.1%	8.7%	9.3%	10.4%	10.7%
Adj PAT	2.6%	3.1%	3.4%	3.8%	3.9%	4.3%	5.2%	5.6%
Performance ratios								
Pre-tax OCF/EBITDA	83.1%	109.3%	85.4%	140.8%	105.0%	87.1%	76.9%	81.0%
OCF/IC (%)	13.9%	19.3%	14.4%	27.8%	14.6%	13.1%	13.2%	15.3%
RoE (%)	14.0%	15.0%	15.1%	16.2%	13.1%	14.6%	18.2%	19.2%
RoCE (%)	10.5%	10.1%	11.9%	12.0%	9.4%	11.1%	13.0%	14.2%
RoCE (Pre-tax)	14.9%	14.7%	15.9%	16.0%	12.4%	14.1%	17.3%	19.0%
RoIC (Pre-tax)	14.6%	14.5%	15.0%	15.0%	11.1%	13.1%	16.4%	18.4%
Fixed asset turnover (x)	3.3	3.3	3.2	2.9	2.2	2.2	2.2	2.3
Total asset turnover (x)	2.5	2.4	2.4	2.3	1.8	1.9	2.0	2.1
Financial stability ratios								
Net Debt to Equity (x)	0.8	0.7	0.5	0.7	0.7	0.6	0.5	0.4
Net Debt to EBITDA (x)	2.2	1.9	1.7	1.8	2.5	2.0	1.4	1.0
Interest cover (x)	3.2	4.8	4.0	8.3	4.8	4.5	4.8	6.1
Cash conversion days	54	51	54	42	53	48	48	48
Working capital days	58	56	58	48	79	69	65	62
Valuation metrics								
Fully Diluted Shares (mn)	72.8	72.9	75.7	76.1	76.1	76.1	76.1	76.1
Market cap (Rs.mn)						22,822		
P/E (x)	42.4	35.3	30.0	26.8	32.5	25.3	17.6	13.9
P/OCF(x)	22.4	16.0	18.1	9.8	16.5	16.1	14.5	11.5
EV (Rs.mn) (ex-CWIP)	25,951	25,512	25,656	25,969	26,136	26,742	26,568	26,084
EV/ EBITDA (x)	17.9	17.1	15.1	14.2	16.6	13.5	10.2	8.3
EV/ OCF(x)	25.5	17.9	20.4	11.1	18.8	18.8	16.9	13.1
FCF Yield						0.5%	1.2%	2.6%
Price to BV (x)	5.9	5.2	4.1	4.6	3.9	3.5	2.9	2.5
Dividend pay-out (%)	14.1%	15.3%	14.8%	13.4%	12.0%	9.3%	6.5%	5.1%
Dividend yield (%)	33.3%	43.3%	49.4%	50.0%	36.9%	36.9%	36.9%	36.9%

**Includes financials of TCI XPS segment (demerged in FY17); ^Adjusted*

Crystal Ball Gazing

Over FY17-21, TRPC is expected to record revenue and EBITDA growth of ~16% and 23%, respectively. Revenue growth is driven by 1)improving macro economic conditions, 2)outsourcing of supply chain to 3PL players, and 3)shift of FTL volumes from unorganised sector(~70% of road volumes in FY17) to organised. EBITDA growth is expected to be driven by higher contribution from supply chain services(3PL) and increase in movement of freight by multimodal logistics.

Revenue CAGR of 16% from FY17 to FY21 driven by incremental demand for 3PL services

Rs.mn	FY12*	FY16*	FY17	FY18E	FY19E	FY20E	FY21E
Revenue	13,327	15,905	18,042	21,193	25,076	29,135	32,720

**Revenue net of TCI XPS division*

+

EBITDA growth driven by higher contribution from SCS and Seaways division

	FY12*	FY16*	FY17	FY18E	FY19E	FY20E	FY21E
EBITDA (Rs.mn)	1,010	1,268	1,575	1,978	2,612	3,125	3,657
EBITDA Margin(%)	7.6%	8.0%	8.7%	9.3%	10.4%	10.7%	11.2%

+

Multiples to be sustained backed by healthy growth

SOTP	FY21 EBITDA (Rs.mn)	EV/EBITA (x)	EV (Rs.mn)
TCI Freight	495	4.0	1,982
TCI SCS	1,898	14.0	26,566
TCI Seaways	1,266	9.5	12,029
Others	83	5.5	454
Net Debt (Rs.mn)			2,357
Mkt Cap (Rs.mn)			38,674
Target Price			**508**

EPS CAGR of 30%

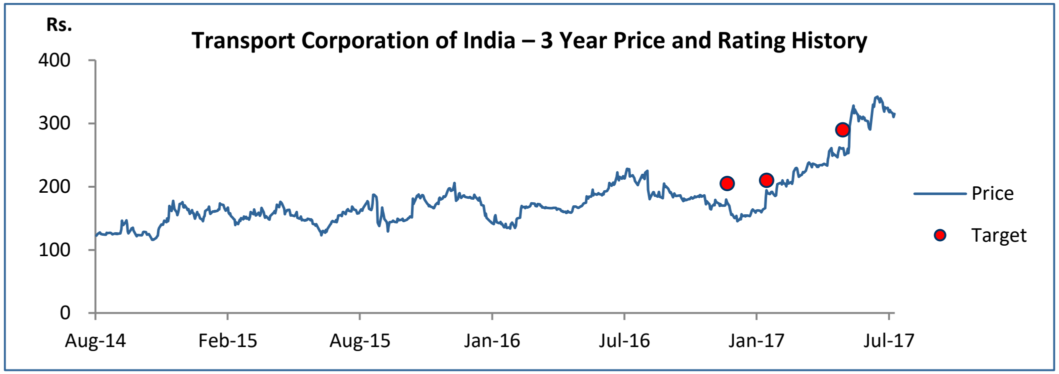
+

Cumulative Dividends of Rs. 9

+

Entry = Rs. 300 @ 17.6x FY19 EPS

TOTAL RETURN OF 73%



Spark Recommendation History

Report Date	Price	Target	Reco.
19/May/17	258	290	Buy
06/Feb/17	183	210	Buy
14/Dec/16	176	205	Buy

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

Symbol Interpretation

◄► No Change | ▼ Downgrade | ▲ Upgrade

Disclosure of Interest Statement

Analyst financial interest in the company	No
Group/directors ownership of the subject company covered	No
Investment banking relationship with the company covered	No
Spark Capital's ownership/any other financial interest in the company covered	No
Associates of Spark Capital's ownership more than 1% in the company covered	No
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Whether the Research Analyst or Research Entity has been engaged in market making activity of the Subject Company;	No

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