

Transport Corporation of India

Accumulate



Asian Markets Securities Pvt. Ltd.

Growth momentum continues...

Institutional Research

CMP (Rs)	304
Target (Rs)	348

Nifty: 10,082; Sensex: 32,477

Key Stock Data

BSE Code	532349
NSE Code	TCI
Bloomberg	TRPC IN
Shares O/smn (FV Rs 5)	76.6
Dividend Yield (%)	0.3
Market cap (Rsbn)	23.3
52-week high/low	350 / 144
3-m daily avg vol.	1,34,046

Rel. Performance

(%)	1m	3m	12m
TCI	(7.8)	22.9	33.6
Nifty	5.9	8.2	16.9
Sensex	5.0	8.5	16.1

Shareholding Pattern

(%)	Dec16	Mar17	Jun17
Promoter	66.1	66.1	66.1
FII	4.9	4.9	5.0
DII	6.2	6.0	6.2
Others	22.8	23.1	22.7

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Transport Corporation of India's (TCI) reported Q1FY18 result was in line with our expectations. It reported a y-o-y revenue growth of 16.2% to Rs 5bn which was supported by strong growth in SCM and coastal shipping divisions. EBITDA margin was higher by 20bps y-o-y to 9.1%. PAT witnessed a y-o-y growth of 16.4% to Rs 176.3mn. Maintain 'Accumulate'.

Strong momentum across all divisions

TCI maintained the growth recovery as it reported a y-o-y growth of 16.2% in revenues to Rs 5bn. We believe underline volume growth would be in low double digit. All its business vertical reported a growth. Its largest trucking division reported a y-o-y growth of 11.7% to Rs 2.5bn mainly on account of recent uptick in manufacturing and industrial activities. Surged in pre GST rollout goods movement in the month of June provided ~2-3% higher growth for Q1FY18. Going ahead we believe the growth in trucking division will moderate a bit around at 7-8%. Though there are enough growth opportunities for transport division but the management doesn't not want chase the growth beyond the 7-8% 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 performed well on the back of recent vessel addition on the west coast and reported a y-o-y growth of 45% to Rs 581mn. The new ship addition expected to contribute revenue of ~Rs 110mn.

SCM maintained the growth trajectory

SCM division maintained the growth trajectory by recording a y-o-y growth of 15.3%. 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 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 20bps

EBITDA was higher by 18.7% to Rs 451.8mn. EBITDA margin improved by 20bps y-o-y to 9.1% but witnessed a good sequential improvement (+90bps). Going ahead, we believe EBITDA margin will see structural improvement up to 9.5-10% 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 H1FY18. PAT was up by 16.4% to Rs 176.3mn. Relatively lower earnings growth was on account of lower other income (-60% y-o-y) along with higher interest and tax outlay.

Outlook and Valuation

TCI will see CAGR of 13% and 28% in revenues and earnings respectively over FY17-19E. 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 23x FY18E and 18x FY19E consolidated earnings. We maintain our 'Accumulate' rating on TCI with a price target of Rs 348, based on 20x FY19E.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rsmn)	FY15#	FY16	FY17	FY18E	FY19E
Sales	24167	17270	19427	21974	24918
yoy (%)	8.4	-28.5	12.5	13.1	13.4
EBITDA	1932	1283	1607	1928	2368
yoy (%)	13.6	-33.6	25.2	20.0	22.8
PAT	814	565	813	999	1331
yoy (%)	13.6	-30.5	43.7	23.0	33.3
Equity	151	152	153	153	153
EPS (Rs)	11	7	11	13	17

Source: Company, AMSEC Research, # Including TCI Express

Exhibit 2: Key Indicators

Y/E Mar	FY15#	FY16	FY17	FY18E	FY19E
EBITDAM (%)	8.0	7.4	8.3	8.8	9.5
NPM (%)	3.4	3.3	4.2	4.5	5.3
PER (x)	28.3	40.9	28.7	23.3	17.5
P/BV (x)	3.8	4.0	3.6	3.2	2.8
EV/Sales (x)	1.1	1.5	1.4	1.2	1.1
EV/EBITDA (x)	13.2	20.4	16.7	14.2	11.6
RoACE (%)	17.8	9.4	11.8	12.7	14.7
RoANW (%)	15.0	9.5	13.3	14.5	17.0

Exhibit 3: 1QFY18 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Y-o-Y change	Q-o-Q change	FY17	FY16	Y-o-Y change
Income from operations	4,274	4,504	4,467	4,816	4,969	16.2%	3.2%	18,062	16,006	12.8%
Less: Expenditures										
Operating cost	3,425	3,590	3,623	3,903	3,981	16.2%	2.0%	14,541	12,824	13.4%
Staff cost	252	251	253	280	287	13.7%	2.5%	1,035	954	8.5%
Other operating & admin	217	231	216	240	250	15.2%	3.8%	904	879	2.9%
EBITDA	381	433	376	393	452	18.7%	14.9%	1,582	1,349	17.3%
EBITDA Margin	8.9%	9.6%	8.4%	8.2%	9.1%	+20BPS	+90BPS	0	0	+40BPS
Other Income	23	19	52	64	9	-59.5%	-85.3%	158	134	18.0%
Depreciation	141	137	152	148	160	13.9%	7.9%	578	507	14.0%
EBIT	263	315	275	309	301	14.4%	-2.6%	1,162	976	19.1%
Interest	75	68	68	64	78	5.2%	23.5%	274	230	19.4%
Profit Before Tax	189	246	207	246	223	18.0%	-9.3%	888	746	19.0%
Tax	38	49	38	60	47	23.3%	-22.8%	185	150	23.5%
Profit after Tax	151	198	169	185	176	16.7%	-4.9%	703	597	17.8%
Extraordinary items	0	0	-	-	-	NA	NA	1	58	-98.6%
Net Profit	152	198	169	185	176	16.4%	-4.9%	704	655	7.5%
EPS	2.1	2.7	2.3	2.5	2.4	16.4%	-4.9%	9.6	8.9	7.5%
Operating Matrix						bps	bps			bps
Operating cost/Sales	80.1%	79.7%	81.1%	81.0%	80.1%	(1)	(92)	80.5%	80.1%	38
Staff cost/Sales	5.9%	5.6%	5.7%	5.8%	5.8%	(13)	(4)	5.7%	6.0%	(23)
Others/Sales	5.1%	5.1%	4.8%	5.0%	5.0%	(5)	3	5.0%	5.5%	(49)
EBITDA Margin	8.9%	9.6%	8.4%	8.2%	9.1%	19	93	8.8%	8.4%	33
Net Margin	3.5%	4.4%	3.8%	3.8%	3.5%	0	(30)	3.9%	4.1%	(19)
ETR	20.0%	19.8%	18.4%	24.5%	20.9%	90	(364)	20.8%	20.0%	77

Source: Company, AMSEC Research,

Exhibit 4: 1QFY18 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Y-o-Y change	Q-o-Q change	FY17	FY16	Y-o-Y change
Segments Revenue										
Transport	2,181.4	2,214.3	2,236.8	2,590.6	2,435.9	11.7%	-6.0%	9,223.1	8,420.4	9.5%
SCM	1,720.9	1,941.3	1,875.8	1,836.4	1,983.9	15.3%	8.0%	7,374.4	6,309.6	16.9%
Coastal shipping	400.3	378.8	397.9	462.3	580.6	45.0%	25.6%	1,639.3	1,412.2	16.1%
Wind power	22.8	31.3	9.2	10.5	24.1	5.7%	129.5%	73.8	59.6	23.8%
Intersegments/ Others	(51.2)	(61.6)	(52.3)	(83.5)	(55.8)	9.0%	-33.2%	(248.6)	(194.7)	27.7%
Total	4,274.2	4,504.1	4,467.4	4,816.3	4,968.7	16.2%	3.2%	18,062.0	16,007.1	12.8%
EBIT										
Transport	48.9	66.5	47.0	50.3	48.9	0.0%	-2.8%	212.7	163.6	30.0%
SCM	115.3	118.6	98.4	115.0	117.6	2.0%	2.3%	447.3	381.3	17.3%
Coastal shipping	70.0	96.8	92.2	122.8	118.9	69.9%	-3.2%	381.8	303.4	25.8%
Wind power	14.0	24.2	0.1	1.1	15.1	7.9%	1272.7%	39.4	26.2	50.4%
Total	248.2	306.1	237.7	289.2	300.5	21.1%	3.9%	1,081.2	874.5	23.6%
EBIT Margins						bps	bps			
Transport	2.2%	3.0%	2.1%	1.9%	2.0%	(23)	6.6	2.3%	1.9%	36.3
SCM	6.7%	6.1%	5.2%	6.3%	5.9%	(77.2)	(33.5)	6.1%	6.0%	2.2
Coastal shipping	17.5%	25.6%	23.2%	26.6%	20.5%	299.2	(608.4)	23.3%	21.5%	180.6
Wind power	61.4%	77.3%	1.1%	10.5%	62.7%	125.2	5,217.9	53.4%	44.0%	942.8
Total	5.8%	6.8%	5.3%	6.0%	6.0%	24.1	4.3	6.0%	5.5%	52.3

Source: Company, AMSEC Research

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

Y/E (Mar)	FY15	FY16	FY17	FY18E	FY19E
Net sales	24,167	17,270	19,427	21,974	24,918
Operating expenses	17,735	14,034	15,821	17,798	20,058
Staff expenses	1,305	980	1,068	1,209	1,370
Selling, admin and other exp.	3,196	974	931	1,039	1,121
Total Expenditure	4,500	1,953	1,999	2,247	2,492
EBITDA	1,932	1,283	1,607	1,928	2,368
Depreciation	545	521	592	649	704
Operating profit	1,386	762	1,015	1,279	1,663
Other income	91	78	122	110	125
EBIT	1,477	840	1,137	1,389	1,788
Interest	333	239	288	303	322
Profit before tax	1,144	601	849	1,085	1,466
Tax	326	154	191	271	366
Minority interest	(4)	119	155	185	232
Reported net profit	814	565	813	999	1,331
Adjusted net profit	814	565	813	999	1,331
Share O/s mn	76	76	77	77	77
EPS Rs	11	7	11	13	17

Balance Sheet

Y/E (Mar)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS :					
Share Capital	151	152	153	153	153
Reserves	5936	5618	6338	7124	8242
Total Shareholders Funds	6087	5770	6491	7277	8395
Minority interest	35	39	43	43	43
Non-Current Liabilities					
Long term borrowings	2836	3146	3795	4295	4295
Deferred tax liability	293	323	395	395	395
Current Liabilities & Provisions	2005	1336	1595	1790	2018
Total Equity & Liabilities	11256	10614	12319	13800	15146
APPLICATION OF FUNDS :					
Non Current Assets					
Fixed Assets	5137	5447	5894	6445	6940
Goodwill	2	-	-	-	-
Noncurrent investment	72	779	899	1084	1316
Current Assets					
Inventories	23	18	25	20	22
Sundry debtors	4346	3253	3570	4038	4579
Cash and bank	421	117	190	244	56
Short loans and advances	1255	1000	1741	1969	2233
Total Assets	11256	10614	12319	13800	15146

Cash Flow Statement

Y/E (Mar)	FY15	FY16	FY17	FY18E	FY19E
PBT	1144	601	849	1085	1466
Non-cash adjustments	878	885	880	953	1027
Chg. in working capital	-447	637	-806	-496	-579
Tax & Interest Paid	-278	-318	-191	-271	-366
Cashflow from oper.	1246	1766	731	1271	1547
Capital expenditure	-1364	-1740	-1039	-1200	-1200
Change in investments	6	-	-120	-	-
Other inv.cashflow	147	802	-	-	-
Cashflow from investing	-1212	-938	-1159	-1200	-1200
Issue of equity	619	36	1	-	-
Issue/repay debt	-	-	-	-	-
Interest Paid	-333	-295	-288	-303	-322
Inc./(Dec.) Loan Funds	-157	766	649	500	0
Dividends paid	-142	-182	-214	-214	-214
Other financing cashflow	-29	-1457	352	-	-
Cashflow from fin.	-42	-1133	501	-17	-536
Chg. cash & cash eq	-7	-304	73	54	-188
Open. cash & cash eq	428	421	117	190	244
Clsq cash & cash eq	421	117	190	244	56
Free cash flow to firm	-118	27	-308	71	347

Key Ratios

Y/E (Mar)	FY15	FY16	FY17	FY18E	FY19E
PER SHARE					
EPS Rs	10.8	7.4	10.6	13.0	17.4
CEPS Rs	18.0	14.3	18.3	21.5	26.6
Book Value Rs	80.5	75.9	84.7	95.0	109.6
VALUATION					
EV / Net Sales	1.1	1.5	1.4	1.2	1.1
EV / EBITDA	13.2	20.4	16.7	14.2	11.6
P / E Ratio	28.3	40.9	28.7	23.3	17.5
P / BV Ratio	3.8	4.0	3.6	3.2	2.8
GROWTH YOY%					
Sales Growth	8.4	-28.5	12.5	13.1	13.4
EBITDA Growth	13.6	-33.6	25.2	20.0	22.8
Net Profit Growth	13.6	-30.5	43.7	23.0	33.3
Gross Fixed Asset Growth	17.7	9.4	10.7	11.2	10.1
PROFITABILITY					
EBITDA / Net Sales (%)	8.0	7.4	8.3	8.8	9.5
EBIT / Net sales (%)	6.1	4.9	5.9	6.3	7.2
NPM / Total income (%)	3.4	3.3	4.2	4.5	5.3
ROE (%)	15.0	9.5	13.3	14.5	17.0
ROCE (%)	17.8	9.4	11.8	12.7	14.7
Tax / PBT %	28.5	25.6	22.5	25.0	25.0
TURNOVER					
Debtors Velocity (Days)	65.6	68.8	67.1	67.1	67.1
Inventory (Days)	1.8	3.3	4.6	3.2	3.2
Current Ratio	3.0	3.3	3.5	3.5	3.4
Quick Ratio	3.0	3.3	3.4	3.5	3.4
LIQUIDITY					
Gross Asset Ratio	3.0	1.9	1.9	1.9	2.0
Total Asset Ratio	2.8	1.9	1.9	1.9	2.0
Net Debt-Equity Ratio	0.4	0.5	0.6	0.6	0.5
Interest Coverage	4.2	3.2	3.5	4.2	5.2
PAYOUT					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	75.0	119.8	139.4	139.4	139.4
Yield %	0.6	0.8	0.9	0.9	0.9

Source: Company, AMSEC Research;

Note: Financials for FY15 includes TCI Express financials

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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