

Transport Corporation of India

BUY



Asian Markets Securities Pvt. Ltd.

Decent show despite growth moderation in SCM

Institutional Research

CMP (Rs)	276
Target (Rs)	370

Nifty: 10,794; Sensex: 36,034

Key Stock Data

Bloomberg	TRPC IN
Shares O/s Mn (FV INR10)	76.6
Mkt Cap(USD Mn/INR Bn)	0.3/21
52-week high/low	376/231
6m daily avg vol(INR Mn)	25
Free Float %	51%

Rel. Performance

(%)	1m	3m	12m
TCI	(8.3)	(0.3)	(7.3)
Nifty	0.0	1.5	2.3
Sensex	0.1	2.1	5.1

Shareholding Pattern

(%)	Jun18	Sep18	Dec18
Promoter	67.0	66.9	66.9
FII	5.0	4.5	1.9
DII	7.9	7.6	8.1
Others	20.1	21.0	23.0

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Transport Corporation of India (TCI) continued its healthy growth momentum especially on revenue front which was slightly better than our estimates. However, EBITDA margin was bit under pressure due to increase in fuel prices and relatively higher growth in low margin segment. Sales grew by 19.2% y-o-y to Rs 6.2bn which was led by strong growth in trucking and coastal shipping divisions and modest growth in SCM. EBITDA margin was lower by 40bps y-o-y to 9.1% but improved by 60bps sequentially. Net Profit increased by 7.3% y-o-y to Rs 300mn. Relatively lower earnings growth was on account of margin compression and higher interest cost. Overall, all segments have performed well and expected to maintain the growth momentum going ahead. Maintain 'Buy'

Strong momentum across all divisions

TCI maintained the growth trajectory as it reported a y-o-y growth of 19.3% in revenues to Rs 6.6bn. We believe underline volume growth would be ~15%. All its business vertical reported a growth. Its largest trucking division reported a y-o-y growth of 20.3% to Rs 3.1bn. Post GST normalcy across trades and overall pick up in industrial activities helped the transport division in reporting relatively higher growth as compared to its normal growth trajectory of 10-12%. Further, its LTL which is contributing ~20% of the trucking revenue has been growing rapidly and contributing to incremental growth along with improving margin. Going ahead we believe the growth in trucking division will see some moderation at 12-15%. Though there are enough growth opportunities for transport division but the management doesn't not want chase the growth beyond 12-15% 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 52% y-o-y to Rs 1002mn 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 200mn and adjusting the same the growth from older ships would be ~21%. The new ship addition will continue to support growth in coastal shipping division in the coming quarter.

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

SCM division reported a modest growth in 10.3% y-o-y in revenue to Rs 2.6bn. Growth moderation as compared to healthy growth momentum in the last few quarters was on account of higher base along with sluggish domestic auto sector. However, OEM and auto exports business has been doing reasonably well. Overall, auto segment is contributing ~70% of SCM revenue and grew by ~7% in Q3FY19 whereas no-auto clients are contributing ~30% of SCM revenue and witnessed ~20% y-o-y growth.

Going ahead, we expect SCM division will see growth pick up from the current level on the back of new customer additions and overall pick up in industrial activities. Further, post GST implementation the company has witnessed a surge in customer enquiries which we believe will provide additional growth booster through incremental new SCM accounts. Despite generation substantial revenue from automobile sector, SCM division is not affected severally 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.

EBITDA margin compressed by 40bps y-o-y to 9.1%

Increased in energy prices and other operating overhead has impacted EBITDA margin by 40bps to 9.1%. Impact of higher energy price is more visible in coastal shipping division which witnessed ~320bps margin contraction. Further, unfavorable sales mix towards low margin trucking business also impacted the EBITDA margin to some extent. Going ahead, we expect some margin recovery in the coming quarters on the back of pass-through of high energy prices to customers and expected softening in oil prices in the coming period.

Net profit grew by 7.3% y-o-y to Rs 300mn. Relatively lower earnings growth was on account of margin compression along with higher interest cost during the quarter. Higher financial expense was on account of increased in debt and cost of borrowings. As on Dec'18, gross debt stood at ~Rs 4.5bn as compared to outstanding debt of Rs 3.8bn as on Dec'17. Increased in debt is largely towards the new ship addition in the coastal shipping division.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Sales	19,427	23,461	27,150	31,155	35,814
yoy (%)	12.5	20.8	15.7	14.8	15.0
EBITDA	1,607	2,127	2,416	3,053	3,510
yoy (%)	25.2	32.4	13.6	26.4	15.0
Reported PAT	813	1,238	1,424	1,890	2,254
yoy (%)	43.7	52.4	15.0	32.8	19.2
Equity	153	153	153	153	153
EPS	10.6	16.2	18.6	24.7	29.4

Exhibit 2: Key Indicators

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EBITDAM (%)	8.3	9.1	8.9	9.8	9.8
NPM (%)	4.2	5.3	5.2	6.1	6.3
PER (x)	26.0	17.0	14.8	11.2	9.4
P/BV (x)	3.3	2.8	2.4	2.0	1.7
EV/Sales (x)	1.3	1.1	0.9	0.8	0.7
EV/EBITDA (x)	15.4	11.7	10.5	8.3	7.1
RoCE (%)	11.8	14.8	15.5	17.8	18.4
RoE (%)	13.3	17.6	17.3	19.6	19.6

Source: Company, AMSEC Research

Outlook and Valuation

We expect, TCI to see CAGR of 15% and 22% in revenues and earnings respectively over the next three years. The strategy to focus more on higher margin services would enhance its profitability in coming years. 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 11x FY20E and 9x FY21E consolidated earnings. We maintain 'Buy' rating on TCI with a price target of Rs 370, based on 15x FY20E earnings.

Exhibit 3: 3QFY19 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	y-o-y change	q-o-q change	9MFY19	9MFY18	y-o-y change
Income from operations	5,553	6,053	5,815	6,203	6,625	19.3%	6.8%	18,643	15,725	18.6%
Less: Expenditures										
Operating cost	4,501	4,833	4,715	5,066	5,438	20.8%	7.3%	15,219	12,657	20.2%
Staff cost	295	330	333	347	340	15.0%	-2.0%	1,020	878	16.1%
Other expenses	231	285	254	259	242	4.6%	-6.6%	755	712	6.0%
EBITDA	526	605	513	531	605	15.0%	13.9%	1,649	1,479	11.5%
Other Income	72	93	82	81	81	12.8%	0.1%	245	153	60.5%
Depreciation	176	162	168	191	205	16.0%	7.4%	563	511	10.1%
EBIT	422	535	428	422	482	14.2%	14.2%	1,331	1,120	18.9%
Interest	79	68	70	93	102	29.0%	9.5%	265	231	14.7%
Profit Before Tax	343	467	357	329	380	10.7%	15.5%	1,066	889	20.0%
Tax	64	101	75	70	80	25.7%	14.7%	226	178	27.0%
Profit after Tax	279	367	282	259	300	7.3%	15.8%	840	711	18.2%
Extraordinary items	-	(40)	-	-	-	NA	NA	-	-	NA
Net Profit	279	327	282	259	300	7.3%	15.8%	840	711	18.2%
EPS	3.65	4.27	3.68	3.38	3.91	7.3%	15.8%	11.0	9.3	18.2%
Operating Matrix						bps	bps			bps
Operating cost/Sales	81.0%	79.9%	81.1%	81.7%	82.1%	105	41	81.6%	80.5%	115
Staff cost/Sales	5.3%	5.5%	5.7%	5.6%	5.1%	(19)	(46)	5.5%	5.6%	(11)
Others/Sales	4.2%	4.7%	4.4%	4.2%	3.6%	(51)	(52)	4.0%	4.5%	(48)
EBITDA Margin	9.5%	10.0%	8.8%	8.6%	9.1%	(34)	57	8.8%	9.4%	(56)
Net Margin	5.0%	5.4%	4.8%	4.2%	4.5%	(50)	35	4.5%	4.5%	(1)
ETR	18.6%	21.5%	21.1%	21.3%	21.1%	251	(15)	21.2%	20.0%	117

Source: Company, AMSEC Research,

Exhibit 4: 3QFY19 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	y-o-y change	q-o-q change	9MFY19	9MFY18	y-o-y change
Revenue										
Transport	2,586	2,984	2,783	2,932	3,112	20.3%	6.1%	8,827	7,327	20.5%
SCM	2,364	2,439	2,375	2,552	2,608	10.3%	2.2%	7,535	6,687	12.7%
Coastal	661	744	715	788	1,002	51.7%	27.1%	2,506	1,820	37.7%
Wind Power	7	6	23	33	6	-15.5%	-82.0%	62	63	-1.1%
Intersegments/ Others	(64)	(120)	(80)	(103)	(23)	-65.0%	-78.2%	(206)	(171)	20.2%
Total	5,553	6,053	5,815	6,203	6,706	20.8%	8.1%	18,724	15,725	19.1%
EBIT										
Transport	83.3	99.8	69.5	82.1	100.3	20.4%	22.2%	251.9	202.7	24.3%
SCM	140.5	190.0	162.7	184.1	155.1	10.4%	-15.8%	501.9	415.1	20.9%
Coastal	145.0	229.1	136.4	116.2	188.3	29.9%	62.0%	440.9	362.2	21.7%
Wind Power	(2.1)	(1.3)	14.1	24.6	(2.7)	28.6%	-111.0%	36.0	36.4	-1.1%
Total	366.7	517.6	382.7	407.0	441.0	20.3%	8.4%	1,230.7	1,016.4	21.1%
EBIT Margins						bps	bps			
Transport	3.2%	3.3%	2.5%	2.8%	3.2%	-	42.3	2.9%	2.8%	8.7
SCM	5.9%	7.8%	6.8%	7.2%	5.9%	0.3	(126.7)	6.7%	6.2%	45.3
Coastal	22.0%	30.8%	19.1%	14.7%	18.8%	(316.6)	404.8	17.6%	19.9%	(230.4)
Wind Power	-29.6%	-23.6%	62.1%	73.7%	-45.0%	NA	NA	58.0%	58.0%	0.9
Total	6.6%	8.6%	6.6%	6.6%	6.6%	(2.7)	1.5	6.6%	6.5%	10.9

Source: Company, AMSEC Research

Financials (Consolidated)

(Rs mn)

Profit and Loss Account

Y/E (Mar)	FY17	FY18	FY19E	FY20E	FY21E
Operating Income	19,427	23,461	27,150	31,155	35,814
Other operating income					
Operating expenses	15,821	19,068	22,046	25,017	28,759
Staff expenses	1,068	1,245	1,493	1,714	1,970
Selling, admin and other expenses	931	1,021	1,195	1,371	1,576
EBITDA	1,607	2,127	2,416	3,053	3,510
Depreciation	592	687	740	819	891
Operating profit	1,015	1,441	1,677	2,234	2,619
Other income	122	182	244	280	322
EBIT	1,137	1,623	1,921	2,514	2,941
Interest	288	322	357	378	378
Exceptional items	-	-	-	-	-
Profit before tax	849	1,301	1,564	2,136	2,563
Tax	191	287	391	534	641
Share in Profit from JV & associates	155	224	251	289	332
PAT	813	1,238	1,424	1,890	2,254
EO Items	-	-	-	-	-
Net Profit	813	1,238	1,424	1,890	2,254
Share O/s mn	76.6	76.6	76.6	76.6	76.6
EPS Rs	10.6	16.2	18.6	24.7	29.4

Cash Flow Statement

Y/E (Mar)	FY17	FY18	FY19E	FY20E	FY21E
PBT	1,004	1,525	1,564	2,136	2,563
Non-cash adjustments	869	1,005	1,097	1,198	1,269
Chg in working capital	(637)	(342)	(619)	(714)	(806)
Tax & Interest Paid	(250)	(368)	(391)	(534)	(641)
Cashflow from oper.	988	1,801	1,650	2,085	2,386
Capital expenditure	(1,138)	(1,511)	(1,500)	(1,500)	(1,500)
Chg in investments	(16)	(8)	-	-	-
Other invest. cashflow	(78)	(27)	-	-	-
Cashflow from invest	(1,231)	(1,546)	(1,500)	(1,500)	(1,500)
Issue of equity	25	-	-	-	-
Issue/repay debt					
Interest Paid	(299)	(323)	(357)	(378)	(378)
Inc./(Dec.) Loan Funds	670	184	500	-	-
Dividends paid	(105)	(163)	(214)	(214)	(214)
Other finan.cashflow	25	-	-	-	-
Cashflow from finan.	316	(303)	(71)	(592)	(592)
Chg cash & cash eq	73	(48)	80	(7)	293
Open cash & cash eq	117	190	142	222	215
Clsq cash & cash eq	190	142	222	215	509
Free cashflow to firm	(150)	291	150	585	886

Balance Sheet

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS :					
Share Capital	153	153	153	153	153
Reserves	6,338	7,465	8,675	10,352	12,392
T. Shareholders Funds	6,491	7,618	8,828	10,505	12,546
Minority interest	43	47	47	47	47
Non-Current Liab.					
Long term borrowings	3,795	3,953	4,453	4,453	4,453
Deferred tax liability	395	445	445	445	445
Current Liab. & Prov.	1,595	1,915	2,221	2,523	2,900
Total Equity & Liab.	12,319	13,977	15,993	17,972	20,390
APPLICATION OF FUNDS :					
Non Current Assets					
Fixed Assets	5,894	6,258	7,018	7,699	8,308
Capital work in progress	-	563	563	563	563
Goodwill	-	-	-	-	-
Noncurrent investment	899	1,044	1,295	1,583	1,915
Current Assets					
Inventories	25	33	24	27	32
Sundry debtors	3,570	4,249	4,916	5,642	6,485
Cash and bank	190	142	222	215	509
Short loans & advances	1,741	1,689	1,954	2,242	2,578
Total Assets	12,319	13,977	15,993	17,972	20,390
Net working capital	3,741	4,055	4,674	5,389	6,194
Total Gross Debt	3,795	3,953	4,453	4,453	4,453
Total Net debt	3,606	3,811	4,231	4,238	3,944
Total capital employed	10,724	12,062	13,773	15,449	17,490

Key Ratios

Y/E (Mar)	FY17	FY18	FY19E	FY20E	FY21E
PER SHARE					
EPS Rs	10.6	16.2	18.6	24.7	29.4
CEPS Rs	18.3	25.1	28.2	35.4	41.1
Book Value Rs	84.7	99.4	115.3	137.1	163.8
VALUATION					
EV / Net Sales	1.3	1.1	0.9	0.8	0.7
EV / EBITDA	15.4	11.7	10.5	8.3	7.1
P / E Ratio	26.0	17.0	14.8	11.2	9.4
P / BV Ratio	3.3	2.8	2.4	2.0	1.7
GROWTH YOY%					
Sales Growth	12.5	20.8	15.7	14.8	15.0
EBITDA Growth	25.2	32.4	13.6	26.4	15.0
Net Profit Growth	43.7	52.4	15.0	32.8	19.2
Gross Fixed Asset Growth	10.7	9.8	12.7	11.3	10.2
PROFITABILITY					
EBITDA / Net Sales (%)	8.3	9.1	8.9	9.8	9.8
EBIT / Net sales (%)	5.9	6.9	7.1	8.1	8.2
NPM / Total income (%)	4.2	5.3	5.2	6.1	6.3
ROE (%)	13.3	17.6	17.3	19.6	19.6
ROCE (%)	11.8	14.8	15.5	17.8	18.4
Tax / PBT %	22.5	22.0	25.0	25.0	25.0
TURNOVER					
Debtors Velocity (Days)	67.1	66.1	66.1	66.1	66.1
Inventory (Days)	0.6	0.6	0.4	0.4	0.4
Current Ratio	3.5	3.2	3.2	3.2	3.3
Quick Ratio	3.4	3.2	3.2	3.2	3.3
LIQUIDITY					
Gross Asset Ratio	1.9	2.1	2.2	2.2	2.3
Total Asset Ratio	1.9	2.1	2.1	2.1	2.2
Net Debt-Equity Ratio	0.6	0.5	0.5	0.4	0.3
Interest Coverage	3.5	4.5	4.7	5.9	6.9
PAYOUT					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	68.4	106.7	139.4	139.4	139.4
Yield %	0.5	0.8	1.0	1.0	1.0

Source: Company, AMSEC Research;

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Hold/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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