

Transport Corporation of India

Accumulate



Asian Markets Securities Pvt. Ltd.

Growth momentum continues...

Institutional Research

CMP (Rs)	259
Target (Rs)	278

Nifty: 9,429; Sensex: 30,435

Key Stock Data

BSE Code	532349
NSE Code	TCI
Bloomberg	TRPC IN
Shares O/smn (FV Rs 5)	76.07
Dividend Yield (%)	0.4
Market cap (Rs bn)	19.9
52-week high/low	268 / 144
3-m daily avg vol.	1,25,556

Rel. Performance

(%)	1m	3m	12m
TCI	12.4	39.6	54.0
Nifty	3.6	6.9	19.8
Sensex	3.8	6.9	18.4

Shareholding Pattern

(%)	Sep16	Dec16	Mar17
Promoter	66.1	66.1	66.1
FII	5.0	4.9	4.9
DII	6.4	6.2	6.0
Others	22.6	22.8	23.1

Jignesh Makwana

jignesh.makwana@amsec.in
+91 22 4343 5113

Rajesh Mudaliar

rajesh.mudaliar@amsec.in
+91 22 4343 5221

Transport Corporation of India's (TCI) reported Q4FY17 result was better than our expectations. It reported a y-o-y revenue growth of 14.5% to Rs 4.8bn which was supported by strong growth in trucking and coastal shipping divisions. However, EBITDA margin was lower by 100bps y-o-y to 8.2% mainly on account of higher operating expenses. PAT was higher by 13.3% to Rs 185.4mn. Relatively higher PAT growth was on account of higher other income and stable depreciation outlay.

Strong momentum in trucking and coastal shipping divisions fuelled the overall growth

TCI maintained the growth recovery as it reported a y-o-y growth of 14.5% in revenues to Rs 4.8bn. 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 15.3% to Rs 2.6bn mainly on account of recent uptick in manufacturing and industrial activities. Going ahead we believe the growth in trucking division will moderate a bit around at 8-9%. Though there are enough growth opportunities for transport division but the management doesn't 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 25% to Rs 462mn.

SCM maintained the stable growth trajectory

SCM division maintained its stable growth trajectory by recording a y-o-y growth of 11%. 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.

Higher opex and staff cost dragged margin by 100bps

Higher opex and staff expenses impacted the EBITDA margin by 100bps y-o-y to 8.2%. However it remained stable at q-o-q basis. As we have mentioned in earlier note that margin above 9-9.5% is not sustainable and over the medium period it will see structural improvement up to 9-9.5% on the back of structural shift in revenue mix towards better margin segments. PAT was up by 13.3% to Rs 185.4mn relatively higher PAT growth was account of higher other income and stable depreciation outlay.

FY17 consolidated performance – Sales/EBITDA/PAT grew by 13%/25%/44%

TCI reported a healthy consolidated performance for FY17 as it witnessed a growth of 13% in sales to Rs 19.4bn. SCM and coastal shipping divisions reported a healthy growth as they witnessed sales growth of 17% and 16% respectively. Trucking division also performed well and reported a growth of 9.5%. EBITDA margin was up by 90bps to 8.3% mainly on account of higher growth in relatively better margin segments like SCM and coastal shipping divisions. Consolidated PAT was up by 43.7%. Margin expansion, higher other income and lower depreciation outlay helped TCI in reporting relatively higher earnings growth. TCI's profit share in JV (Transystem) was up by 30% to Rs 155mn as against Rs 119mn.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	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)	24.1	34.8	24.4	19.9	14.9
P/BV (x)	3.2	3.4	3.1	2.7	2.4
EV/Sales (x)	0.9	1.3	1.2	1.1	1.0
EV/EBITDA (x)	11.4	17.7	14.6	12.4	10.2
RoACE (%)	17.8	9.4	11.8	12.7	14.7
RoANW (%)	15.0	9.5	13.3	14.5	17.0

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 19x FY18E and 15x FY19E consolidated earnings. We are revising our rating to 'Accumulate' from Buy on account of strong run up in TCI's stock price (+45%) since our last update. We assign target price of Rs 278 which is 16x FY19E earnings.

KTA of Analyst Meet

- Expecting consolidation in logistics industry post GST implementation
- Three macro factors – GST, Consumption and Infrastructure development will drive growth
- Automobile is contributing 3/4th of SCM revenues and don't expect material shift in sales mix of SCM division over the next 2-3 years.
- Transystem (JV company) reported a revenue of Rs 4bn in FY17 v/s Rs 3.1bn in FY16
- Added one ship in March'17 in coastal shipping division and deployed in western coast.
- Will add one ship in every 18-24 months gap
- Coastal shipping will undergo for dry docking in FY18 which will impact its margin. The dry docking expenses will be ~Rs 50mn.
- Guided for 12-15% revenue CAGR over next two years
- Structurally, EBITDA margin will see improvement with higher contribution from SCM & coastal shipping divisions
- Invested ~Rs 10bn in capex over the last 10 years and will continue to incur capex to the tune of Rs 1.2-1.3bn every year.
- ROCE of 15% is base criteria for incurring any new capex.

Exhibit 3: 4QFY17 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Y-o-Y change	Q-o-Q change	FY17	FY16	Y-o-Y change
Income from operations	4,205.5	4,274.2	4,504.1	4,467.4	4,816.3	14.5%	7.8%	18,062.0	16,005.9	12.8%
Less: Expenditures										
Operating cost	3,349.7	3,424.9	3,589.5	3,623.3	3,903.0	16.5%	7.7%	14,540.7	12,824.2	13.4%
Staff cost	233.0	252.1	250.7	252.5	279.7	20.0%	10.8%	1,035.0	953.7	8.5%
Other operating & admin	236.8	216.6	231.4	215.9	240.3	1.5%	11.3%	904.2	879.0	2.9%
EBITDA	386.0	380.6	432.5	375.7	393.3	1.9%	4.7%	1,582.1	1,349.0	17.3%
EBITDA Margin	9.2%	8.9%	9.6%	8.4%	8.2%	-100BPS	-20BPS	8.8%	8.4%	+40BPS
Other Income	28.3	23.2	19.1	51.7	64.1	126.5%	24.0%	158.1	134.0	18.0%
Depreciation	146.6	140.5	137.0	152.3	148.3	1.2%	-2.6%	578.1	507.0	14.0%
EBIT	267.7	263.3	314.6	275.1	309.1	15.5%	12.4%	1,162.1	976.0	19.1%
Interest	57.6	74.5	68.3	67.8	63.5	10.2%	-6.3%	274.1	229.6	19.4%
Profit Before Tax	210.1	188.8	246.3	207.3	245.6	16.9%	18.5%	888.0	746.4	19.0%
Tax	46.8	37.7	48.7	38.2	60.2	28.6%	57.6%	184.8	149.6	23.5%
Profit after Tax	163.3	151.1	197.6	169.1	185.4	13.5%	9.6%	703.2	596.8	17.8%
Extraordinary items	0.3	0.4	0.4	-	-	NA	NA	0.8	58.2	-98.6%
Net Profit	163.6	151.5	198.0	169.1	185.4	13.3%	9.6%	704.0	655.0	7.5%
EPS	2.23	2.07	2.70	2.31	2.53	13.3%	9.6%	9.61	8.9	7.5%
Net Profit from ordinary activity										
Operating Matrix						bps	bps			bps
Operating cost/Sales	79.7%	80.1%	79.7%	81.1%	81.0%	139	(7)	80.5%	80.1%	38
Staff cost/Sales	5.5%	5.9%	5.6%	5.7%	5.8%	27	16	5.7%	6.0%	(23)
Others/Sales	5.6%	5.1%	5.1%	4.8%	5.0%	(64)	16	5.0%	5.5%	(49)
EBITDA Margin	9.2%	8.9%	9.6%	8.4%	8.2%	(101)	(24)	8.8%	8.4%	33
Net Margin	3.9%	3.5%	4.4%	3.8%	3.8%	(4)	6	3.9%	4.1%	(19)
ETR	22.3%	20.0%	19.8%	18.4%	24.5%	224	608	20.8%	20.0%	77

Source: Company, AMSEC Research, # includes TCI express financials

Exhibit 4: 4QFY17 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Y-o-Y change	Q-o-Q change	FY17	FY16	Y-o-Y change
Segments Revenue										
Transport	2,246.8	2,181.4	2,214.3	2,236.8	2,590.6	15.3%	15.8%	6,632.5	6,173.6	7.4%
SCM	1,652.6	1,720.9	1,941.3	1,875.8	1,836.4	11.1%	-2.1%	5,538.0	4,657.0	18.9%
Coastal shipping	369.5	400.3	378.8	397.9	462.3	25.1%	16.2%	1,177.0	1,042.7	12.9%
Wind power	8.0	22.8	31.3	9.2	10.5	31.3%	14.1%	63.3	51.6	22.7%
Intersegments/ Others	(61.2)	(51.2)	(61.6)	(52.3)	(83.5)	36.4%	59.7%	(165.1)	(133.5)	23.7%
Total	4,215.7	4,274.2	4,504.1	4,467.4	4,816.3	14.2%	7.8%	13,245.7	11,791.4	12.3%
EBIT										
Transport	50.0	48.9	66.5	47.0	50.3	0.6%	7.0%	162.4	113.6	43.0%
SCM	113.3	115.3	118.6	98.4	115.0	1.5%	16.9%	332.3	268.0	24.0%
Coastal shipping	87.3	70.0	96.8	92.2	122.8	40.7%	33.2%	259.0	216.1	19.9%
Wind power	1.3	14.0	24.2	0.1	1.1	-15.4%	1000.0%	38.3	24.9	53.8%
Total	251.9	248.2	306.1	237.7	289.2	14.8%	21.7%	554.3	402.5	37.7%
EBIT Margins						bps	bps			
Transport	2.2%	2.2%	3.0%	2.1%	1.9%	(28)	(16.0)	2.4%	1.8%	60.8
SCM	6.9%	6.7%	6.1%	5.2%	6.3%	(59.4)	101.6	6.0%	5.8%	24.6
Coastal shipping	23.6%	17.5%	25.6%	23.2%	26.6%	293.6	339.1	22.0%	20.7%	128.0
Wind power	16.3%	61.4%	77.3%	1.1%	10.5%	(577.4)	938.9	60.5%	48.3%	1,225.0
Total	6.0%	5.8%	6.8%	5.3%	6.0%	2.9	68.4	4.2%	3.4%	77.1

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
Other operating income					
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 & 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
Exceptional items	-	-	-	-	-
Profit before tax	1,144	601	849	1,085	1,466
Tax	326	154	191	271	366
Share in profit of JV. cos		119	155	185	232
Minority interest	(4)	-	-	-	-
Reported net profit	814	565	813	999	1,331
EO Items	-	-	-	-	-
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

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	0	0
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	0	0
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

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

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	0.9	1.3	1.2	1.1	1.0
EV / EBITDA	11.4	17.7	14.6	12.4	10.2
P / E Ratio	24.1	34.8	24.4	19.9	14.9
P / BV Ratio	3.2	3.4	3.1	2.7	2.4
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					
Net Working Cycle					
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 %	0.7	0.9	1.1	1.1	1.1

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.

Disclosures

This Report is published by Asian Markets Securities Private Limited (hereinafter referred to as "AMSEC") for private circulation. AMSEC is a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments. It is also having registration as a Depository Participant with CDSL and as Portfolio Manager. 'AMSEC is registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration Number as INH000001378.'

AMSEC has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

AMSEC or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. AMSEC, its associates or analyst or his relatives do not hold any financial interest in the subject company. AMSEC or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. AMSEC or its associates or Analyst or his relatives hold / do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

AMSEC or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. AMSEC or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of subject company and AMSEC / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Jignesh Makwana, the research analysts and authors of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

1. Name of the analyst:	Jignesh Makwana
2. Name of the Associate	Rajesh Mudaliar
3. Analysts' ownership of any stock related to the information contained:	Nil
4. AMSEC ownership of any stock related to the information contained:	None
5. Broking relationship with company covered:	None
6. Investment Banking relationship with company covered:	None

Disclaimer

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. AMSEC is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of AMSEC and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. AMSEC will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject AMSEC & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. AMSEC or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. AMSEC or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. AMSEC reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, AMSEC is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of AMSEC accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither AMSEC, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with AMSEC.

Our reports are also available on Fact Set and Bloomberg ASNM <GO>