

Transport Corporation of India (TRPC)

Rating: ◀▶

Target price: ▲

EPS: ▲

CMP	Target	Rating
Rs. 258	Rs. 290	BUY

How does our one year outlook change?

- We 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 rollout of GST (expected in July 2017) 2) government thrust on coastal shipping providing incremental volumes (TCI Seaways) and 3) focus on multi-modal transportation involving sea, rail and road. TCI's is well placed to capitalise on its infrastructure and established market position in an evolving logistics space. We expect revenue and EBITDA growth of 13% and 23% CAGR FY17-19. **We have BUY rating with a SOTP based (slide 2) TP of Rs. 290**
- TCI Freight's 10% revenue growth in FY17 was the highest over the last six years, moreover it was primarily volume lead growth as freight rates have largely remained stable. Importantly, payment cycles have improved resulting in improving segment RoCE to ~7.5%. We expect growth drivers to remain in tact (move towards LTL, unorganised truckers losing out and multi-modal focus). Expect growth of ~8% CAGR (FY17-19) and EBITDA margin to improve to 4%
- SCS segment grew 12% in the 4Q17 (in line with Auto OEM – ~70% of segment). We are extremely positive on SCS growth prospects primarily driven by GST. We expect a number of sectors viz. FMCG, chemicals, e-com, retail, apparel, electronics to move towards 3PL solutions. TRPC has the largest available infrastructure by far. Number of regional players could lose out as manufacturers look for pan-India 3PL providers. Current queries and engagement with these sectors to provide complete solutions are encouraging. Expect revenue and EBITDA CAGR of 19% and 24% from FY17-19.
- Expect Seaways division to grow at revenue and EBITDA CAGR of 16.5% and 18.5% through FY17-19 with the recent addition of a new ship.
- Expect addition of new vehicles, warehouses and other equipment in SCS division and during FY18 leading to overall capex spend of ~Rs.1.3bn.

How does our 3 year Outlook change?

- Improving macro economic condition and shift of volumes from unorganised sector to organised is expected to drive TRPC's revenue and EBITDA CAGR of 13% and 19%, respectively, through FY16-21. We believe TRPC's infrastructure, experienced management team (vintage of ~four decades) and long standing customer relationships is expected to aid its position as being a preferred 3PL partner. Furthermore, government thrust on coastal shipping with new initiatives under Sagarmala is expected to drive overall volumes.
- Expect disruption from tech enabled start-ups resulting in significant price competition in the Full Truck Load (FTL) segment. Expect the share of Freight division to reduce to ~40% by 2021 from 51% in FY17

4QFY17 Update				19th May, 2017	
Promoters	66.1			Bloomberg	TRPC IN EQUITY
Institutions	10.8			Shares o/s	77mn
Public	23.1			Market Cap	Rs. 20bn
	1m	3m	12m	52-wk High-Low	Rs. 268-143
TRPC	11%	40%	54%	3m Avg. Daily Vol	Rs. 29mn
Sensex	4%	7%	18%	Index	BSE500

Key estimate revision

	FY18E			FY19E		
	Old	New	Change	Old	New	Change
Revenue	20,327	20,428	0.5%	22,853	23,275	1.8%
EBITDA	1,911	1,912	0.0%	2,275	2,415	6.2%
Margin (%)	9.40%	9.4%	-4 bps	10.0%	10.4%	42 bps
PAT	778	811	4.3%	975	1,097	12.5%
PAT Margin	3.80%	4.0%	17 bps	4.3%	4.7%	45 bps
EPS	10.2	10.7	4.5%	12.8	14.4	12.6%

All figures in Rs. mn, except EPS, which is in Rs.

Financial summary

Year	Revenue (Rs. mn)	EBITDA (Rs. mn)	EBITDA Margin	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY17	18,062	1,582	8.8%	703	9.2	27.9	14.6
FY18E	20,428	1,912	9.4%	811	10.7	24.2	11.5
FY19E	23,275	2,415	10.4%	1,097	14.4	17.9	9.0

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Quarterly financial results

Quarterly Financial Results					
Rs. mn\Period	Mar-17	mar-16	yoy %	Dec-16	qoq %
Revenue	4,816	4,206	14.5%	4,467	7.8%
Total Expenditure	4,423	3,820	15.8%	4,092	8.1%
EBITDA	393	386	1.9%	376	4.7%
EBITDA Margin %	8.2%	9.2%	-101 bps	8.4%	-24 bps
D&A	148	147	1.2%	152	-2.6%
EBIT	245	239	2.3%	223	9.7%
Other income	64	28	126.5%	52	24.0%
Net Interest exp (inc)	64	58	10.2%	68	-6.3%
PBT	246	210	16.9%	207	18.5%
Tax provision	60	47	28.6%	38	57.6%
Tax rate %	24.5%	22.3%	10.0%	18.4%	608 bps
PAT (Reported)	185	163	13.5%	169	9.6%
PAT (Adjusted)	185	163	13.5%	169	9.6%
Margin %	3.8%	3.9%	-3 bps	3.8%	6 bps
Shares Outstanding	76	76		76	
EPS (Adjusted)	2.4	2.2	12.9%	2.2	9.6%

Revenue growth was driven by Incremental volumes from capital goods and engineering companies in Freight division registering 14.8% YoY growth for 4QFY17. SCS and seaways division reported 12% and 26% YoY growth, respectively

EBITDA margins declined ~20 bps QoQ, primarily driven by drop in TCI Freight's EBITDA margin by 40bps to 2.9%. The incremental contribution from freight division to top line (up from 50% to 53.5%) also a key factor in QoQ margin drop.

Other income came in higher than expectation

SOTP Valuation

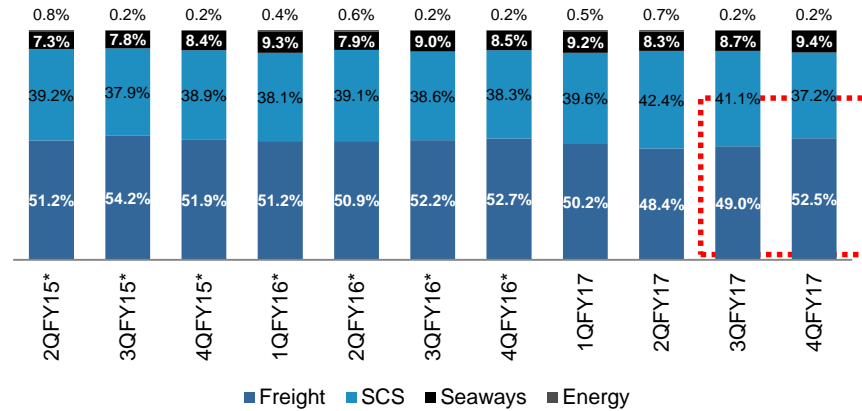
	FY19 EBITDA (Rs. Mn)	EV/EBITDA (x)	EV (Rs. Mn)
TCI Freight	430	5.5	2,367
TCI SCS	1,190	12.5	14,880
TCI Seaways	712	9.0	6,408
Others	83	5.5	454
Net Debt (Rs. Mn)			2,172
Market Cap (Rs. Mn)			21,009
Target Price			290

Transport Corporation of India (TRPC)

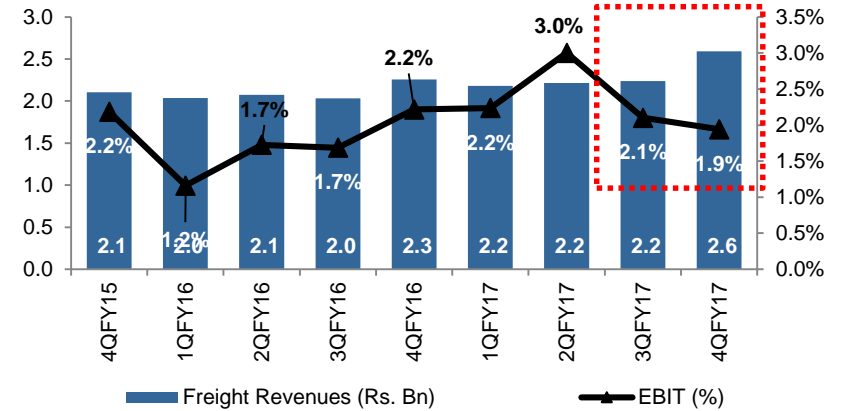
CMP	Target	Rating
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Segment wise financial summary

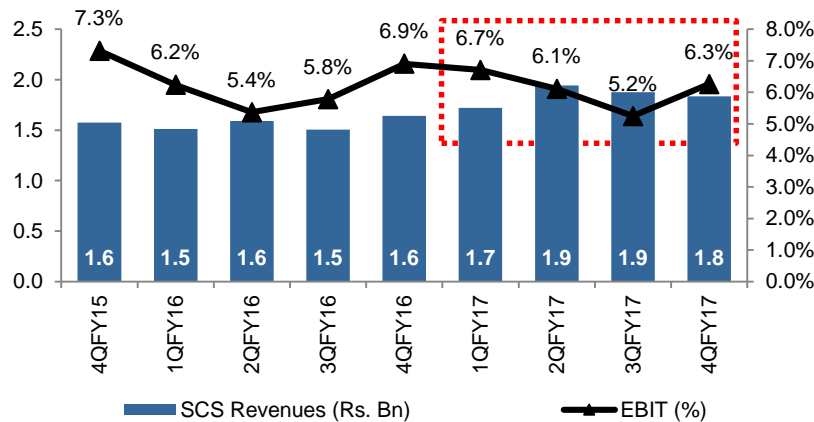
Revenue contribution – SCS loses share to freight segment



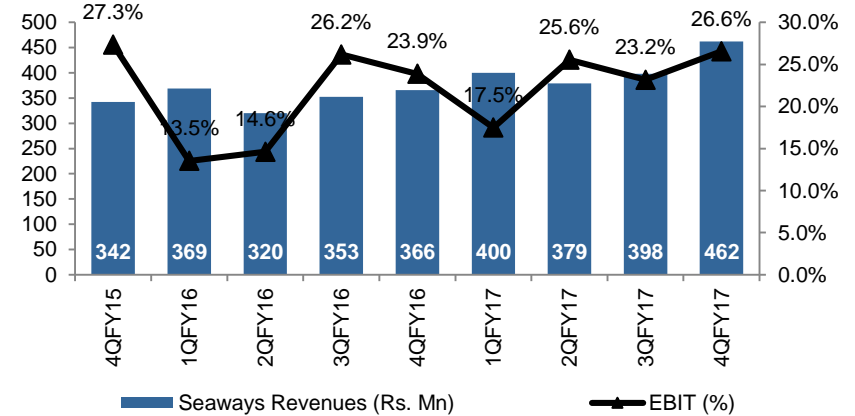
Freight: Topline grew 14% YoY & EBIT margins declined 20 bps



SCS: Revenue growth in-line with PV OEM production



Seaways: Revenues and EBIT improvement driven by addition of new ship



Source: Company, Spark Capital Research

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Financial Summary

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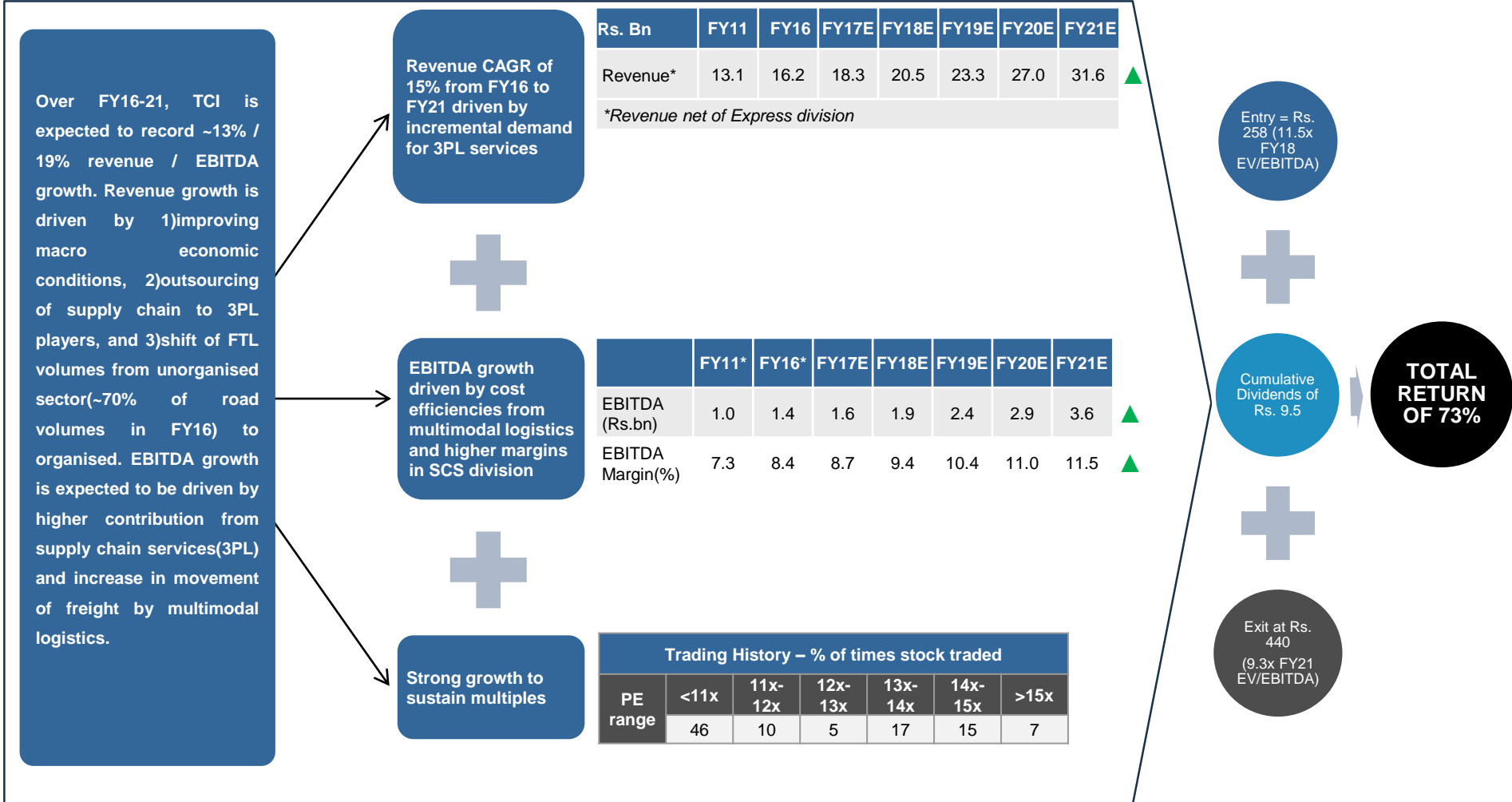
Abridged Financial Statements					Key metrics				
Rs. mn	FY16	FY17E	FY18E	FY19E		FY16	FY17E	FY18E	FY19E
Profit & Loss					Growth ratios				
Revenues	22,578	18,062	20,428	23,275	Revenues	2.8%	-20.0%	13.1%	13.9%
Operating expenses	20,755	16,480	18,516	20,860	EBITDA	7.0%	-13.2%	20.8%	26.3%
EBITDA	1,823	1,582	1,912	2,415	PAT	12.0%	-17.4%	15.4%	35.2%
Depreciation	539	578	657	758	Margins				
EBIT	1,284	1,004	1,254	1,657	EBITDA	8.1%	8.8%	9.4%	10.4%
Net Interest Exp / (inc)	160	116	172	195	EBIT	5.7%	5.6%	6.1%	7.1%
Profit Before Tax	1,124	888	1,082	1,462	PAT	3.8%	3.9%	4.0%	4.7%
Tax	273	185	270	366	Leverage & WC ratios				
Adj. Net Profit	850	703	811	1,097	Debt to equity (x)	0.6	0.7	0.5	0.5
Balance Sheet (Rs. mn)					Current ratio (x)	3.42	3.12	4.20	4.33
Shareholders Equity	5,181	5,143	6,520	7,515	Debtor days (Sales)	49	67	49	49
Loan funds	3,000	3,660	3,475	3,510	Creditor Days	10	8	8	8
Sources of funds	8,500	9,194	10,386	11,418	Working Capital Days (Sales)	39	59	41	41
Net block	5,215	5,234	6,395	6,886	Performance & turnover ratios				
Investments	266	298	298	298	RoACE (%)	11.5	9.4	10.0	11.8
Capital WIP	123	568	-	-	RoAE (%)	15.8	13.6	13.9	15.6
Current assets, loans & advances	4,094	4,552	4,847	5,504	Total asset turnover (x)	2.56	2.04	2.09	2.13
Current liabilities & provisions	1,198	1,457	1,153	1,270	Fixed asset turnover (x)	2.66	1.99	1.87	1.91
Net Current Assets	2,896	3,094	3,694	4,234	Valuation metrics				
Application of funds	8,500	9,194	10,386	11,418	Current price (Rs.)	258			
Cash Flows (Rs. mn)					Shares outstanding (mn)	76	76	76	76
Cash flows from operations	2,330	1,236	2,411	1,587	Market capitalisation (Rs. mn)	19,627	19,627	19,627	19,627
Cash flows from investments	(988)	(1,042)	(1,250)	(1,250)	Enterprise value (Rs. mn)	22,523	23,103	22,042	21,806
Cash flows from financing	(1,383)	560	(286)	(65)	EV/EBITDA (x)	12.4	14.6	11.5	9.0
Capex	1,027	1,042	1,250	1,250	Adj. Per-share earnings (Rs.)	11.2	9.2	10.7	14.4
Free cashflow	1,303	194	1,161	337	Price-earnings multiple (x)	23.1	27.9	24.2	17.9
Closing cash	104	184	1,059	1,331	Dividend yield (%)	0.6	0.4	0.4	0.4

Financials of FY16 is strictly not comparable as it included financials of TCI XPS (now demerged)

Transport Corporation of India (TCI)

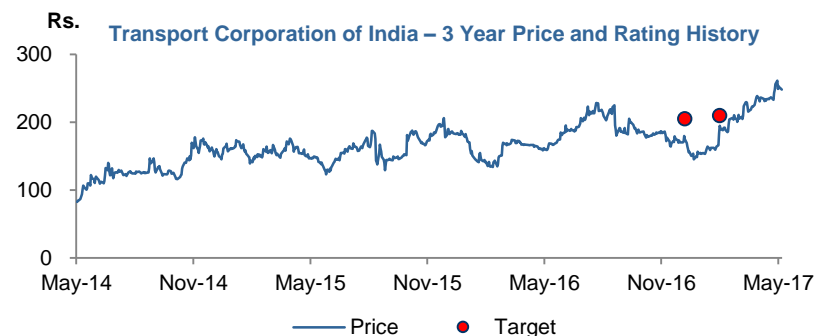
Crystal Ball Gazing

FY11-16 CAGR %			
Revenue	EBITDA	PAT	Price
5.1%	6.1%	10.6%	47%



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Spark Disclaimer



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

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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

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