

**Transport Corporation of India Ltd.**

**BUY**



Asian Markets Securities Pvt. Ltd.

**Revival in growth momentum albeit at slower rate**

**Institutional Research**

<b>CMP (Rs)</b>	<b>284</b>
<b>Target (Rs)</b>	<b>335</b>

Nifty: 8,178; Sensex: 26,720

**Key Stock Data**

BSE Code	532349
NSE Code	TCI
Bloomberg Code	TRPC IN
Shares o/s mn (FV Rs2)	76.07
Market Cap (Rs bn)	21.70
52-Week High / Low	348 / 198
3-M Daily Avg. Vol.	62,095

**Relative Performance**

(%)	1m	3m	12m
TCI	5.6	24.9	24.1
Nifty	3.9	16.8	(3.2)
Sensex	4.1	15.9	(4.2)

**Shareholding Pattern**

(%)	Sep15	Dec15	Mar16
Promoter	66.5	66.5	66.5
FII	2.8	5.1	2.5
DII	6.5	6.4	9.8
Others	24.1	22.0	21.2

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Transport Corporation of India's (TCI) Q4FY16 result was broadly in line with our expectations but bit disappointed us on FY16 consolidated result. It reported a revenue growth of 6.5% to Rs 6bn which was supported by growth in all segments. It reported highest ever quarterly EBITDA margin of 8.8% which was higher by 50bps y-o-y. Increase in operating leverage and lower energy prices resulted in margin improvement. Despite higher depreciation outlay and lower other income, PAT was up by 12% largely on account of margin expansion along with lower tax outlay. We maintain our BUY rating on the stock with a price target of Rs 335.

**Revival in growth momentum albeit at slower pace**

TCI which was reporting subdued performance over the past few quarters on the back of sluggish economic activities witnessed a growth revival albeit at slower pace. It reported a y-o-y sales growth of 6.5% to Rs 6bn. We believe underline volume growth would be in high single digit. All its business vertical reported a growth. Its largest trucking division reported a y-o-y sales growth of 6.7%.

The XPS division also witnessed a mild recovery by reporting a y-o-y sales growth of 6.8%. We believe growth momentum for XPS division will see pickup from here onwards on the back of improvement in economic condition which will drive growth for high value parcels. The coastal shipping division performed well (y-o-y sales growth 8%) on the back of recent vessel addition on the west coast.

Growth in SCS division remained sluggish on the back of subdued auto export logistics business and mild growth in the domestic auto logistics business. However, we believe, this is just temporary phenomena and SCS will bounce back to its normal growth trajectory from the next quarter onwards. Going ahead we believe SCS, XPS and Coastal shipping divisions will drive the growth for the company.

**EBITDA margin improved 50bps to 8.8%**

During the quarter, TCI reported highest ever quarterly EBITDA margin to 8.8% which was higher by 50bps and 80bps on y-o-y and q-o-q basis respectively. Increase in operating leverage along with lower energy prices helped in achieving higher margin. Going ahead, we expect the margin to improve further, mainly on account of favorable change in sales mix along with improvement in the overall business dynamics. PAT was up by 12% to Rs 241mn supported by margin improvement along with lower tax outlay. Consolidated PAT for FY16 witnessed y-o-y growth just 0.3% to Rs 816mn. Lower growth in consolidated earnings was on account of lower dividend income from SCS JV Company and losses booked to the tune of ~Rs 80mn in overseas subsidiaries.

**Outlook and Valuation**

TCI to see CAGR of 15% and 35% in revenues and earnings respectively over FY16-18E. The strategy to focus more on higher margin services would enhance its profitability in coming years. At CMP, TCI is trading at 20x FY17E and 15x FY18E earnings. We maintain our BUY rating with a SOTP price target of Rs 335. We have valued TCI Core and XPS businesses at 15x and 20x respectively on FY18E earnings.

**Exhibit 1: Key Financials (Consolidated)**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Sales	22285	24167	25214	29245	33603
yoy (%)	4.5	8.4	4.3	16.0	14.9
EBITDA	1701	1932	1968	2457	2991
yoy (%)	-2.7	13.6	1.9	24.8	21.7
PAT	716	814	816	1098	1445
yoy (%)	3.1	13.6	0.3	34.6	31.5
Equity	146	151	152	152	152
EPS (Rs)	10	11	11	14	19

Source: Company, AMSEC Research

**Exhibit 2: Key Indicators**

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	7.6	8.0	7.8	8.4	8.9
NPM (%)	3.2	3.4	3.2	3.8	4.3
PER (x)	29.0	26.5	26.6	19.7	15.0
P/BV (x)	4.3	3.5	3.2	2.8	2.4
EV/Sales (x)	1.0	1.0	1.0	0.9	0.8
EV/EBITDA (x)	13.7	12.4	12.5	10.3	8.5
RoACE (%)	12.6	12.7	11.2	12.7	14.4
RoANW (%)	15.9	15.0	12.7	15.3	17.5

**Exhibit 3: 4QFY16 Quarterly Financials (Standalone)**

Particulars (Rs. mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Y-o-Y change	Q-o-Q change	FY16	FY15	Y-o-Y change
<b>Income from operations</b>	<b>5,655.6</b>	<b>5,483.0</b>	<b>5,559.4</b>	<b>5,514.6</b>	<b>6,020.7</b>	<b>6.5%</b>	<b>9.2%</b>	<b>22,577.7</b>	<b>21,967.5</b>	<b>2.7%</b>
Less: Expenditures										
Operating cost	4,438.8	4,392.8	4,372.3	4,342.1	4,728.4	6.5%	8.9%	17,835.6	17,647.8	1.1%
Staff cost	332.5	349.9	367.9	391.8	370.8	11.5%	-5.4%	1,480.4	1,249.6	18.5%
Other cost	417.0	326.5	381.5	339.3	391.7	-6.1%	15.4%	1,439.0	1,366.5	5.3%
<b>EBITDA</b>	<b>467.3</b>	<b>413.8</b>	<b>437.7</b>	<b>441.4</b>	<b>529.8</b>	<b>13.4%</b>	<b>20.0%</b>	<b>1,822.7</b>	<b>1,710.6</b>	<b>6.6%</b>
Other Income	35.4	40.1	62.2	(0.5)	20.6	-41.8%	NA	122.4	123.6	4.9%
Depreciation	132.5	127.6	129.7	128.0	153.9	16.2%	20.2%	539.2	494.6	9.0%
<b>EBIT</b>	<b>370.2</b>	<b>326.3</b>	<b>370.2</b>	<b>312.9</b>	<b>396.5</b>	<b>7.1%</b>	<b>26.7%</b>	<b>1,405.9</b>	<b>1,332.7</b>	<b>5.5%</b>
Interest	68.9	67.9	70.4	70.5	73.2	6.2%	3.8%	282.0	319.1	-11.6%
Profit Before Tax	301.3	258.4	299.8	242.4	323.3	7.3%	33.4%	1,123.9	1,013.6	10.9%
Tax	84.5	70.7	66.9	53.4	82.0	-3.0%	53.6%	273.0	252.5	8.1%
<b>Profit after Tax</b>	<b>216.8</b>	<b>187.7</b>	<b>232.9</b>	<b>189.0</b>	<b>241.3</b>	<b>11.3%</b>	<b>27.7%</b>	<b>850.9</b>	<b>761.1</b>	<b>11.8%</b>
Extraordinary items	(1.7)	-	-	-	0.3	NA	NA	(0.3)	(1.7)	NA
<b>Net Profit</b>	<b>215.1</b>	<b>187.7</b>	<b>232.9</b>	<b>189.0</b>	<b>241.6</b>	<b>12.3%</b>	<b>27.8%</b>	<b>850.6</b>	<b>759.4</b>	<b>12.1%</b>
<b>Operating Matrix</b>						BPS	BPS			BPS
OPEX/Sales	78.5%	80.1%	78.6%	78.7%	78.5%	5	(20)	79.0%	80.3%	(131)
Staff/Sales	5.9%	6.4%	6.6%	7.1%	6.2%	28	(95)	6.6%	5.7%	87
Other OPEX/Sales	7.4%	6.0%	6.9%	6.2%	6.5%	(87)	35	6.4%	6.2%	15
EBITDA Margin	8.3%	7.5%	7.9%	8.0%	8.8%	54	80	8.1%	7.8%	29
Net margin	3.8%	3.4%	4.2%	3.4%	4.0%	21	59	3.8%	3.5%	31
Tax rate	28.0%	27.4%	22.3%	22.0%	25.4%	(268)	333	24.3%	24.9%	(62)

Source: Company, AMSEC Research

**Exhibit 4: 4QFY16 Segmental Highlights (Standalone)**

Particulars (Rs. mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Y-o-Y change	Q-o-Q change	FY16	FY15	Y-o-Y change
<b>Revenue</b>										
Transport	2,104.9	2,036.0	2,074.4	2,033.8	2,246.8	6.7%	10.5%	8,391.0	8,156.2	2.9%
XPS	1,689.8	1,595.0	1,601.8	1,667.7	1,805.0	6.8%	8.2%	6,669.5	6,602.4	1.0%
SCM	1,575.9	1,512.5	1,590.4	1,504.6	1,652.6	4.9%	9.8%	6,260.1	6,128.6	2.1%
Coastal shipping	342.1	368.8	320.2	352.6	369.5	8.0%	4.8%	1,411.1	1,219.5	15.7%
Wind Power	7.3	17.6	26.3	7.7	8.0	9.6%	3.9%	59.6	62.2	-4.2%
Intersegments	(64.4)	(46.9)	(53.7)	(51.8)	(61.2)	-5.0%	18.1%	(213.6)	(198.4)	7.7%
<b>Total</b>	<b>5,655.6</b>	<b>5,483.0</b>	<b>5,559.4</b>	<b>5,514.6</b>	<b>6,020.7</b>	<b>6.5%</b>	<b>9.2%</b>	<b>22,577.7</b>	<b>21,974.5</b>	<b>2.7%</b>
<b>EBIT</b>										
Transport	46.0	23.6	35.8	34.3	55.8	21.3%	62.7%	149.5	125.8	18.8%
XPS	121.7	110.8	122.3	121.2	133.4	9.6%	10.1%	487.7	459.1	6.2%
SCM	115.3	94.3	85.4	87.0	114.7	-0.5%	31.8%	381.4	373.7	2.1%
Coastal shipping	93.5	49.9	46.8	92.3	81.5	-12.8%	-11.7%	270.5	285.7	-5.3%
Wind Power	(1.4)	7.7	18.6	(1.4)	1.3	NA	NA	26.2	29.2	-10.3%
<b>Total</b>	<b>375.1</b>	<b>286.3</b>	<b>308.9</b>	<b>333.4</b>	<b>386.7</b>	<b>3.1%</b>	<b>16.0%</b>	<b>1,315.3</b>	<b>1,273.5</b>	<b>3.3%</b>
<b>EBIT Margin</b>						BPS	BPS			BPS
Transport	2.2%	1.2%	1.7%	1.7%	2.5%	29.8	79.7	1.8%	1.5%	23.9
XPS	7.2%	6.9%	7.6%	7.3%	7.4%	18.9	12.3	7.3%	7.0%	35.9
SCM	7.3%	6.2%	5.4%	5.8%	6.9%	(37.6)	115.8	6.1%	6.1%	(0.1)
Coastal shipping	27.3%	13.5%	14.6%	26.2%	22.1%	(527.4)	(412.0)	19.2%	23.4%	(425.8)
Wind Power	-19.2%	43.8%	70.7%	-18.2%	16.3%	NA	NA	44.0%	46.9%	(298.6)
<b>Total</b>	<b>6.6%</b>	<b>5.2%</b>	<b>5.6%</b>	<b>6.0%</b>	<b>6.4%</b>	<b>(21.0)</b>	<b>37.7</b>	<b>5.8%</b>	<b>5.8%</b>	<b>3.0</b>

Source: Company, AMSEC Research

**Financials (Consolidated)****(Rs mn)**

<b>Profit and Loss Account</b>						<b>Cash Flow Statement</b>					
Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E	Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E
Net sales	22285	24167	25214	29245	33603	PBT	993	1144	1160	1484	1952
Operating expenses	16471	17735	18398	21349	24194	Non-cash adjustments	779	874	880	1061	1141
Staff expenses	1172	1305	1545	1608	2016	Chg. in working capital	-167	-441	-170	-622	-673
Total Expenditure	2942	3196	3303	3831	4402	Tax & Interest Paid	-275	-326	-340	-386	-508
EBITDA	4113	4500	4848	5440	6418	<b>Cashflow from operat.</b>	<b>1330</b>	<b>1251</b>	<b>1530</b>	<b>1538</b>	<b>1913</b>
Depreciation	1701	1932	1968	2457	2991	Capital expenditure	-676	-1329	-1749	-1500	-1500
<b>Operating profit</b>	<b>468</b>	<b>545</b>	<b>590</b>	<b>705</b>	<b>784</b>	Change in investments	-63	8	0	0	0
Other income	1232	1386	1379	1752	2206	Other investing cashflow	0	0	0	0	0
<b>EBIT</b>	<b>72</b>	<b>91</b>	<b>77</b>	<b>89</b>	<b>102</b>	<b>Cashflow from invest.</b>	<b>-740</b>	<b>-1321</b>	<b>-1749</b>	<b>-1500</b>	<b>-1500</b>
Interest	1304	1477	1455	1841	2309	Issue of equity	0	598	1	0	0
<b>Profit before tax</b>	<b>993</b>	<b>1144</b>	<b>1160</b>	<b>1484</b>	<b>1952</b>	Interest Paid	-311	-333	-295	-357	-357
Tax	275	326	340	386	508	Increase / (Decrease) in Loan Funds	-199	-59	731	0	0
Minority interest	-1	-4	-4	0	0	Dividends paid	-111	-163	-214	-214	-214
<b>Reported net profit</b>	<b>716</b>	<b>814</b>	<b>816</b>	<b>1098</b>	<b>1445</b>	Other finan. cashflow	-3	18	134	0	0
<b>Adjusted net profit</b>	<b>716</b>	<b>814</b>	<b>816</b>	<b>1098</b>	<b>1445</b>	<b>Cashflow from financ.</b>	<b>-623</b>	<b>61</b>	<b>358</b>	<b>-570</b>	<b>-570</b>
Share O/s mn	73	76	76	76	76	<b>Chg in cash &amp; cash eq</b>	<b>-33</b>	<b>-9</b>	<b>139</b>	<b>-533</b>	<b>-157</b>
EPS Rs	9.8	10.8	10.7	14.4	19.0	<b>Op. cash &amp; cash eq</b>	<b>461</b>	<b>428</b>	<b>419</b>	<b>558</b>	<b>26</b>
						<b>Clsg cash &amp; cash eq</b>	<b>428</b>	<b>419</b>	<b>558</b>	<b>26</b>	<b>-132</b>
						<b>Free cash flow to firm</b>	<b>653</b>	<b>-78</b>	<b>-219</b>	<b>38</b>	<b>413</b>
<b>Balance sheet</b>						<b>Ratios (Consolidated)</b>					
Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E	Y/E (Mar)	FY14	FY15	FY16	FY17E	FY18E
<b>SOURCES OF FUNDS :</b>						<b>PER SHARE</b>					
Share Capital	146	151	152	152	152	EPS Rs	9.8	10.8	10.7	14.4	19.0
Reserves	4637	5936	6606	7490	8721	Book Value Rs	65.6	80.5	88.9	100.5	116.7
<b>Total Shareholders Funds</b>	<b>4783</b>	<b>6087</b>	<b>6758</b>	<b>7642</b>	<b>8873</b>	<b>VALUATION</b>					
Minority interest	31	35	39	39	39	EV / Net Sales	1.0	1.0	1.0	0.9	0.8
<b>Non-Current Liabilities</b>						EV / EBITDA	13.7	12.4	12.5	10.3	8.5
Long term borrowings	2895	2836	3567	3567	3567	P / E Ratio	29.0	26.5	26.6	19.7	15.0
Deferred tax liability	332	293	354	354	354	P / BV Ratio	4.3	3.5	3.2	2.8	2.4
<b>Current Liabilities &amp; provisions</b>	<b>1842</b>	<b>2005</b>	<b>2172</b>	<b>2502</b>	<b>2860</b>	<b>GROWTH YOY%</b>					
<b>Total Equity &amp; Liabilities</b>	<b>9883</b>	<b>11256</b>	<b>12889</b>	<b>14105</b>	<b>15693</b>	Sales Growth	4.5	8.4	4.3	16.0	14.9
<b>APPLICATION OF FUNDS :</b>						EBITDA Growth	-2.7	13.6	1.9	24.8	21.7
<b>Non Current Assets</b>						Net Profit Growth	3.1	13.6	0.3	34.6	31.5
Fixed Assets	4354	5137	6297	7092	7808	Gross Fixed Asset Growth	9.9	17.7	19.8	14.1	12.4
Capital work in progress	0	0	0	0	0	<b>PROFITABILITY</b>					
Goodwill	2	2	2	2	2	EBITDA / Net Sales (%)	7.6	8.0	7.8	8.4	8.9
Noncurrent investment	80	72	72	72	72	EBIT / Net sales (%)	5.9	6.1	5.8	6.3	6.9
<b>Current Assets</b>						NPM / Total income (%)	3.2	3.4	3.2	3.8	4.3
Inventories	17	23	20	23	27	ROE (%)	15.9	15.0	12.7	15.3	17.5
Sundry debtors	3800	4346	4536	5261	6045	ROCE (%)	12.6	12.7	11.2	12.7	14.4
Cash and bank	428	421	558	26	-132	Tax / PBT %	27.7	28.5	29.3	26.0	26.0
Short loans and advances	1202	1255	1405	1629	1872	<b>TURNOVER</b>					
<b>Total Assets</b>	<b>9883</b>	<b>11256</b>	<b>12889</b>	<b>14105</b>	<b>15693</b>	Debtors Velocity (Days)	62.2	65.6	65.7	65.7	65.7
						Inventory (Days)	1.5	1.8	1.5	1.6	1.5
						Current Ratio	3.0	3.0	3.0	2.8	2.7
						Quick Ratio	2.9	3.0	3.0	2.8	2.7
						<b>LIQUIDITY</b>					
						Gross Asset Ratio	3.1	3.0	2.6	2.6	2.6
						Total Asset Ratio	2.8	2.8	2.5	2.6	2.8
						Net Debt-Equity Ratio	0.5	0.4	0.4	0.5	0.4
						Interest Coverage	4.0	4.2	4.7	4.9	6.2
						<b>PAYOUT</b>					
						Payout %	15.5	20.0	20.0	20.0	20.0
						Dividend %	65.0	75.0	140.4	140.4	140.4
						Yield %	0.5	0.8	1.0	1.0	1.0

Source: Company, AMSEC Research

## Recommendation rationale

<b>Buy:</b> Potential upside of	> +15% (absolute returns)
<b>Accumulate:</b>	> +5 to +15%
<b>Reduce:</b>	+5 to -5%
<b>Sell:</b>	< -5%
<b>Not Rated (NR):</b>	No investment opinion on the stock

## Sector rating

<b>Overweight:</b>	The sector is expected to outperform relative to the Sensex.
<b>Underweight:</b>	The sector is expected to underperform relative to the Sensex.
<b>Neutral:</b>	The sector is expected to perform in line with the Sensex.

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