

Transport Corporation of India

Performance Highlights

Quarterly Data (Standalone)

(₹ cr)	1QFY16	1QFY15	% yoy	3QFY15	% qoq
Revenue	548	520	5.4	566	(3.1)
EBITDA	41	41	1.4	47	(11.4)
Margin (%)	7.5	7.8	(30bp)	8.3	(72bp)
Reported PAT	19	16	17.4	22	(12.7)

Source: Company, Angel Research

Transport Corporation of India (TCIL) reported a subtle top-line and bottom-line growth for 1QFY2016 on a standalone basis. The top-line growth was restrained due to subdued growth in XPS and Supply Chain Solutions segments. On the operating front, the company saw pressure due to increase in employee costs and other expenses. However, higher other income boosted the overall profitability.

Subdued growth in XPS and Supply Chain Solutions segment restricted the overall top-line growth: For the quarter, TCIL registered a lower growth in its standalone top-line, ie of 5.4% yoy to ~₹548cr, on back of lower growth in XPS and Supply Chain Solutions segments. However, the Freight and Seaways segment reported a decent growth on the revenue front.

Higher other income boosted the overall PAT growth: Despite of lower growth in sales and operating profit, the company reported a decent ~17% PAT growth due to lower interest cost and higher other income, for the quarter.

Outlook and valuation: TCIL benefits from its pan-India scale, which gives it competitive advantage in higher margin segments of the logistics industry; as well as from its asset-light business model which cushions its profitability in cyclical downturns and gives it an attractive ROE profile. The company is well-placed to be a key beneficiary of the anticipated implementation of the GST. On its implementation, there will be a more pronounced requirement among corporates for reliable pan-India logistics players to manage their hub-and-spoke supply chains. At the current market price, TCIL trades at a P/E of 14.6x its FY2017E earnings. **Hence, we recommend an Accumulate rating on the stock with a target price of ₹293.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	2,228	2,417	2,755	3,251
% chg	4.5	8.4	14.0	18.0
Net profit	72	81	104	138
% chg	3.0	13.6	27.3	33.6
EBITDA margin (%)	7.6	8.0	8.5	9.0
EPS (₹)	9.5	10.8	13.7	18.3
P/E (x)	28.2	24.8	19.5	14.6
P/BV (x)	4.1	3.3	2.9	2.5
RoE (%)	14.6	13.2	14.9	17.2
RoCE (%)	14.9	14.6	16.1	18.2
EV/Sales (x)	1.0	1.0	0.8	0.7
EV/EBITDA (x)	13.6	11.9	10.0	8.1

Source: Company, Angel Research, Note: CMP as of July 31, 2015

ACCUMULATE

CMP	₹267
Target Price	₹293

Investment Period	12 months
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Stock Info

Sector	Logistics
Market Cap (₹ cr)	2,019
Net Debt (₹ cr)	286
Beta	1.6
52 Week High / Low	303 / 188
Avg. Daily Volume	13,102
Face Value (₹)	2
BSE Sensex	28,115
Nifty	8,533
Reuters Code	TCIL.BO
Bloomberg Code	TRPC@IN

Shareholding Pattern (%)

Promoters	66.9
MF / Banks / Indian Fls	5.7
FII / NRIs / OCBs	2.8
Indian Public / Others	24.7

Abs. (%)	3m	1yr	3yr
Sensex	2.3	10.3	62.9
TCIL	5.3	32.2	316.7

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Standalone quarterly performance

Y/E March (₹ cr)	1QFY16	1QFY15	% yoy	4QFY15	% qoq	FY2015	FY2014	% chg
Net Sales	548	520	5.4	566	(3.1)	2,197	2,027	8.4
Operating Expense	439	422	4.2	444	(1.0)	1,765	1,641	7.5
(% of Sales)	80.1	81.0		78.5		80.3	81.0	
Staff Costs	35	30	18.6	33	5.2	125	113	11.0
(% of Sales)	6.4	5.7		5.9		5.7	5.6	
Other Expense	33	28	15.1	42	(21.7)	137	124	10.0
(% of Sales)	6.0	5.5		7.4		6.2	6.1	
Total Expenditure	507	479	5.7	519	(2.3)	2,026	1,878	7.9
Operating Profit	41	41	1.4	47	(11.4)	170	149	14.1
OPM (%)	7.5	7.8		8.3		7.8	7.4	
Interest	7	8	(9.5)	7	(1.5)	32	30	
Depreciation	13	12	6.7	13	(3.7)	49	42	16.6
Other Income	4.0	0.4	1,013.9	3.5	13.3	12	6	116.4
PBT	26	22	19.0	30	(14.2)	101	83	22.2
Ext Income/(Expense)				0		0	-	
PBT (incl. Ext Items)	26	22	19.0	30	(36.5)	101	83	22.0
(% of Sales)	4.7	4.2		5.3		4.6	4.1	
Provision for Taxation	7	6	23.6	8	(16.3)	25	21	20.6
(% of PBT)	27.4	26.3		28.0		24.9	25.2	
Minority Interest	-	-	-	-	-	-	-	-
Recurring PAT	19	16	17.4	22	(12.7)	76	62	22.5
PATM	3.4	3.1		3.8		3.5	3.1	
Exceptional items	-	-	-	-	-	-	-	-
Reported PAT	19	16	17.4	22	(12.7)	76	62	22.5
Equity shares (cr)	7.6	7.6		7.6		7.6	7.6	
FDEPS (₹)	2.5	2.1	17.4	2.8	(12.7)	10.0	8.2	22.5

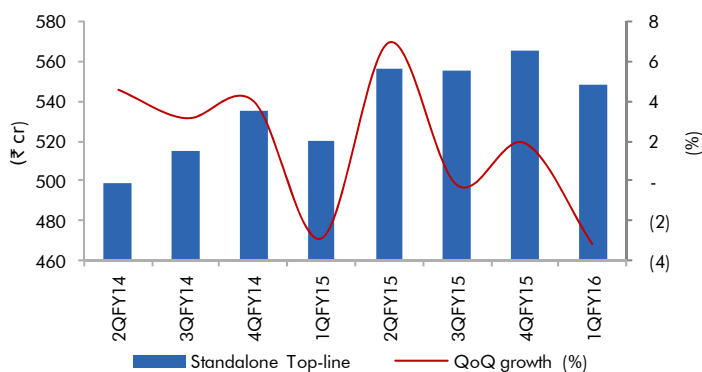
Source: Company, Angel Research

Subdued growth in XPS & Supply Chain Solution segments restricted top-line growth

For the quarter, TCIL registered a lower growth in its standalone top-line, ie of 5.4% yoy to ~₹548cr, on back of lower growth in XPS and Supply Chain Solutions segment. The company's XPS segment reported a lower growth of ~4% yoy. The Supply Chain Solutions segment also reported a flat growth yoy due to slowdown in the automobile sector (~75% of this segment's business comes from the automobile sector). However, TCIL reported a decent revenue growth of 7% yoy in the freight segment and ~30% yoy in the Seaways segment.

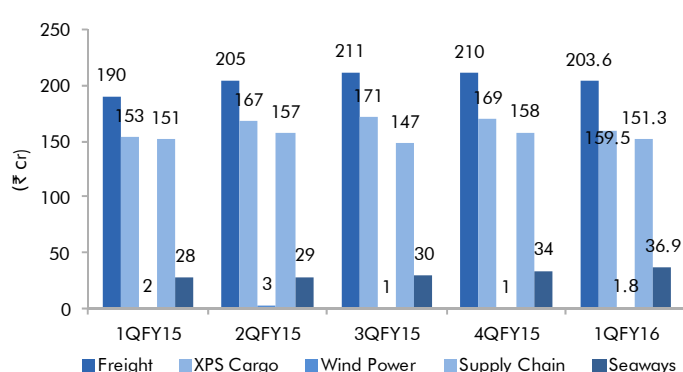
Going forward, the Management has indicated at the company reporting strong numbers on the top-line front (>15% CAGR over 3 years) on the back of an anticipated pick in economic activities and with its substantial expansion plans.

Exhibit 2: Top-line growth trend



Source: Company, Angel Research

Exhibit 3: Segment wise revenue trend

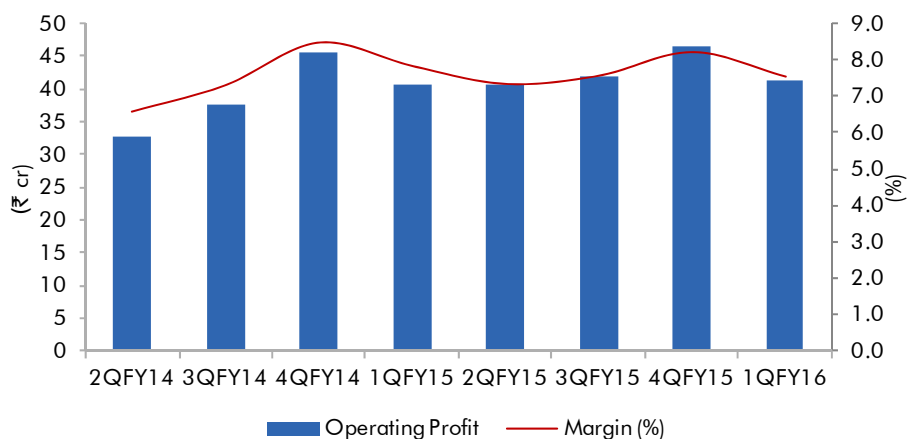


Source: Company, Angel Research

Operating margin contracts due to higher employee costs and other expenses

The company reported a standalone operating profit of ~₹41cr in 1QFY2016, up 1.4% yoy. The operating margin contracted by a significant 30bp yoy on account of higher employee costs (up 71bp yoy as a percentage of sales) and other expenses (up 50bp yoy as a percentage of sales).

Exhibit 4: Operating profit and margin trend

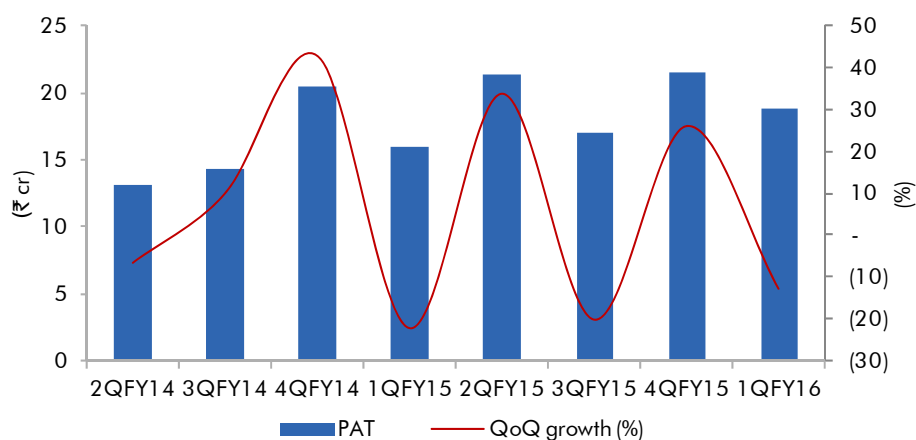


Source: Company, Angel Research

Higher other income and lower interest cost boost overall PAT

In 1QFY2016, TCIL posted a growth of ~17% yoy to ~₹19cr on the earnings front, owing to higher other income and lower interest cost.

Exhibit 5: Net Profit and growth trend



Source: Company, Angel Research

Investment rationale

Top-line to accelerate and post 16% CAGR over FY2015-17E on economic revival; eventual GST implementation would provide further boost

We expect TCIL to report a healthy top-line growth of ~16% CAGR over FY2015-17E on the back of revival in the Indian economy. Among TCIL's four business segments, (a) we expect the Express segment to report ~17% CAGR. TCIL is also well-placed to garner e-commerce business, as bulkier categories like furniture and white goods see more traction in online sales. (b) we expect the Supply Chain Solutions segment to report ~21% CAGR owing to recovery in the automobile sector, growth in e-commerce fulfillment hubs, as well as new customer wins due to increasing outsourcing of supply chain in other sectors like FMCG, chemicals, cold storage, etc, especially once GST kicks in. The other two segments, viz Freight and Seaways, are also likely to benefit from economic revival and are expected to report ~12% and 17% CAGR respectively.

Stepped-up capex spending in higher margin businesses to aid overall earnings growth trajectory

As the demand environment improves, we expect margins to improve across segments for TCIL. Moreover, we expect the company to increase focus on higher margin businesses like XPS and Supply Chain Solutions. As a result, the revenue contribution of these businesses is expected to increase from ~56% in FY2014 to ~61% in FY2017E, with the company having aggressive expansion plans in these businesses (₹500cr capex over FY2015-17E). As a result, we expect overall margins to improve from 8% in FY2015 to 9.0% in FY2017, thereby driving a 30% CAGR in net profits over the same period.

Well positioned due to its Asset light business model

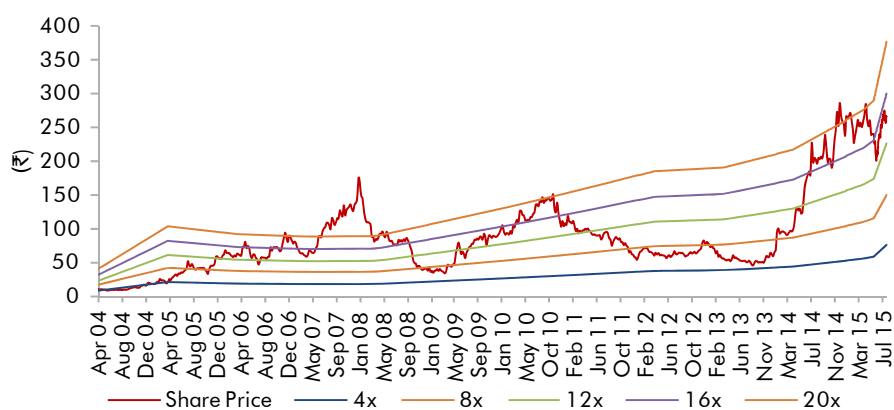
TCIL operates on an asset light business model where it owns 20% of the total fleet and leases the remaining 80%. The company has scaled its business model to 7,000 trucks/trailers/reefer vehicles as of today. On the same lines, TCIL has been prudent in managing warehousing space, as a majority of its total 10mn sq ft of warehousing space is on lease basis. With its focus to invest less on building the asset base, the company has been able to generate healthy return ratios even in the worst phases of business cycles. Given the company's unlevered business model, we are of the view that the long-term growth prospects of the company would not be impacted due to lack of capital availability.

TCIL is one of the few companies in Surface Transportation & Logistics space, which has consistently enjoyed a healthy asset turnover (FY2015 asset turnover ratio at 4.8x) and ROE (FY2015 ROE at 13.3%). Given the strong matrices the company displays, we are confident that TCIL at any phase of the business cycle would be well positioned compared to its peers, which have levered business models and have lower ROEs.

Outlook and valuation

TCIL benefits from its pan-India scale, which gives it competitive advantage in higher margin segments of the logistics industry; as well as from its asset-light business model which cushions its profitability in cyclical downturns and gives it an attractive ROE profile. The company is well-placed to be a key beneficiary once GST is implemented, as corporates will then need reliable pan-India logistics players to manage their hub-and-spoke supply chains. At the current market price, TCIL trades at a P/E of 14.6x its FY2017E earnings. **Hence, we recommend an Accumulate rating on the stock with a target price of ₹293.**

Exhibit 6: One-year forward P/E band



Source: Company, Angel Research

Company Background

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The company operates in six business divisions: TCI Freight, TCI XPS, TCI Supply Chain Solutions, TCI Seaways, TCI Global and TCI Foundation. TCI Freight offers multimodal transport solutions for cargo of any dimension. TCI XPS is a door-to-door express distribution specialist. TCI Supply Chain Solutions provides supply chain solutions and services right from conceptualization to implementation. TCI Seaways caters to the coastal cargo requirements for transporting container and bulk cargo from parts on the east coast of India to Port Blair in the Andaman and Nicobar Islands and further distribution within the islands. TCI Global provides a single window advantage to its customers across all South East Asian countries.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	2,132	2,228	2,417	2,755	3,251
% chg	9.0	4.5	8.4	14.0	18.0
Total Expenditure	1,957	2,058	2,224	2,521	2,959
Personnel Expenses	112	117	130	152	182
Others Expenses	1,845	1,941	2,093	2,369	2,776
EBITDA	175	170	193	234	293
% chg	10.6	(2.7)	13.6	21.2	25.0
(% of Net Sales)	8.2	7.6	8.0	8.5	9.0
Depreciation & Amortisation	46	47	55	63	72
EBIT	128	123	139	171	220
% chg	10.3	(4.0)	12.5	23.3	28.8
(% of Net Sales)	6.0	5.5	5.7	6.2	6.8
Interest & other Charges	34	31	33	35	37
Other Income	6	7	9	10	12
(% of PBT)	6.3	7.2	7.9	7.1	6.3
Share in profit of Associates	-	-	-	-	-
Recurring PBT	101	99	114	146	195
% chg	18.1	(1.8)	15.2	27.9	33.5
Prior Period & Extra. Exp./ (Inc.)	-	-	0	-	-
PBT (reported)	101	99	114	146	195
Tax	32	27	33	42	57
(% of PBT)	31.2	27.7	28.5	29.0	29.0
PAT (reported)	70	72	82	104	139
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	0	0	0	0	0
PAT after MI (reported)	70	72	81	104	138
ADJ. PAT	70	72	82	104	138
% chg	16.8	3.0	13.6	27.3	33.6
(% of Net Sales)	3.3	3.2	3.4	3.8	4.3
Basic EPS (₹)	9.2	9.5	10.8	13.7	18.3
Fully Diluted EPS (₹)	9.2	9.5	10.8	13.7	18.3
% chg	16.8	3.0	13.6	27.3	33.6

Consolidated Balance sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	15	15	15	15	15
Reserves & Surplus	422	476	601	682	787
Shareholders Funds	437	491	616	697	803
Minority Interest	1	3	3	3	3
Total Loans	354	336	336	366	406
Deferred Tax Liability	32	33	33	33	33
Total Liabilities	824	863	988	1,099	1,244
APPLICATION OF FUNDS					
Gross Block	652	693	823	973	1,123
Less: Acc. Depreciation	234	262	316	379	452
Net Block	418	432	507	594	671
Capital Work-in-Progress	5	18	18	18	18
Investments	8	8	7	7	7
Current Assets	534	543	603	665	780
Inventories	2	2	2	2	2
Sundry Debtors	395	380	420	468	543
Cash	46	43	42	47	60
Loans & Advances	67	65	79	83	91
Other Assets	24	53	60	66	85
Current liabilities	141	138	148	186	233
Net Current Assets	393	405	455	480	547
Mis. Exp. not written off	-	-	-	-	-
Total Assets	824	863	988	1,099	1,244

Consolidated Cash flow

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Profit before tax	101	99	114	146	195
Depreciation	46	47	55	63	72
Change in Working Capital	(46)	15	(51)	(20)	(55)
Interest / Dividend (Net)	29	25	33	35	37
Direct taxes paid	(26)	(28)	(33)	(42)	(57)
Others	0	0	-	-	-
Cash Flow from Operations	104	158	118	183	193
(Inc.)/ Dec. in Fixed Assets	(55)	(98)	(128)	(150)	(150)
(Inc.)/ Dec. in Investments	(6)	-	1	-	-
Cash Flow from Investing	(61)	(98)	(129)	(150)	(150)
Issue of Equity	1	1	60	-	-
Inc./(Dec.) in loans	13	(19)	-	30	40
Dividend Paid (Incl. Tax)	(8)	(12)	(16)	(23)	(33)
Interest / Dividend (Net)	(35)	(33)	(33)	(35)	(37)
Cash Flow from Financing	(28)	(63)	10	(28)	(30)
Inc./(Dec.) in Cash	15	(3)	(1)	5	13
Opening Cash balances	31	46	43	42	47
Closing Cash balances	46	43	42	47	60

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	29.1	28.2	24.8	19.5	14.6
P/CEPS	17.4	17.0	14.8	12.1	9.6
P/BV	4.6	4.1	3.3	2.9	2.5
Dividend yield (%)	0.6	0.7	0.8	1.1	1.6
EV/Sales	1.1	1.0	1.0	0.8	0.7
EV/EBITDA	13.3	13.6	11.9	10.0	8.1
EV / Total Assets	2.4	2.3	2.0	1.8	1.6
Per Share Data (₹)					
EPS (Basic)	9.2	9.5	10.8	13.7	18.3
EPS (fully diluted)	9.2	9.5	10.8	13.7	18.3
Cash EPS	15.3	15.7	18.0	22.1	27.9
DPS	1.5	1.8	2.2	3.0	4.4
Book Value	57.8	64.9	81.4	92.2	106.1
Returns (%)					
ROCE	16.2	14.9	14.6	16.1	18.2
Angel ROIC (Pre-tax)	17.4	15.9	15.4	16.9	19.3
ROE	15.9	14.6	13.2	14.9	17.2
Turnover ratios (x)					
Asset Turnover (Gross Block)	5.1	5.2	4.8	4.6	4.8
Inventory / Sales (days)	0	0	0	0	0
Receivables (days)	68	62	63	62	61
Payables (days)	15	13	12	12	12
WC cycle (days)	53	50	52	50	49
Solvency ratios (x)					
Net debt to equity	0.7	0.6	0.4	0.5	0.5
Net debt to EBITDA	1.7	1.7	1.3	1.5	1.4
Interest Coverage (EBIT / Int.)	3.8	4.0	4.4	4.8	5.7

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Disclosure of Interest Statement	Transport Corporation of India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)