



Transport Corporation of India

Buy

CMP	₹ 283
Target / Downside	₹ 333 / 18%
BSE Sensex	26,838
NSE Nifty	8,112
Script Details	
Equity / FV	₹ 151mn / ₹ 2/-
Market Cap	₹ 21bn
	USD 329mn
52 week High/Low	₹ 322 / 198
Avg. Volume (no)	386,508
NSE Symbol	TCI
Bloomberg Code	TRPC IN
Shareholding Pattern Sept'15 (%)	
Promoter	66.5
MF/Banks/FIs	6.5
FIIIs	2.9
Public / Others	24.1

Valuation

	FY16E	FY17E	FY18E
P/E (x)	19.6	15.9	12.3
EV/EBITDA (x)	10.4	8.8	7.3
ROE (%)	16.7	18.0	19.9
ROCE (%)	18.4	19.8	21.9

Estimates (₹)

	FY16E	FY17E	FY18E
Net Sales	27,814	32,306	37,207
EBIDTA	2,336	2,778	3,311
PAT	1,092	1,349	1,734
EPS	14.4	17.8	22.9

Growth traction in sight despite a sluggish quarterly performance

The Q2 FY16 results of Transport Corporation of India's (TCIL) fell below our expectations. The revenues of the company remained almost static on a y-o-y basis to ₹5.6 bn mainly on account of sluggish performance from transport, SCM and XPS divisions. Despite sluggish top line growth, TCIL managed to put decent EBITDA margin owing to an increase in operating leverage along with stable diesel prices. Stable EBITDA margin along with lower interest outlay fetched a relatively higher net profit growth of 9% to ₹232.9mn. We maintain our Buy rating with a price target of ₹333.

Muted growth in the Transport, SCM and XPS divisions impacted the growth trajectory

TCIL's sales remained nearly flat on a y-o-y basis largely due to sluggish performance from transport, SCM and XPS divisions. The revenues from the SCM and XPS divisions was unsatisfactory, mainly on account of lower than expected pick up in industrial activities. Over the last two quarters, SCM has witnessed a moderation in growth due to subdued auto export logistics business and a tepid growth in the domestic auto logistics business. However, we believe, this is just temporary blip and SCM will bounce back to its normal growth trajectory from the next quarter onwards. The XPS division also remained under pressure because of a slowdown in high value parcels, which will see an uptick once the economy revives.

The coastal shipping division performed well (y-o-y sales growth 10.6%) on the back of recent vessel additions on the west coast. Going ahead, we believe the SCM, XPS and coastal shipping divisions will drive the growth for the company.

EBITDA margin improved marginally to 7.9%

During the quarter, TCIL reported a y-o-y expansion of 10bps in the EBITDA margin to 7.9%. Higher dry docking expenses to the tune of ₹ 50mn restricted the otherwise healthy improvement in EBITDA margin. On a like to like basis, EBITDA margin improved by ~100bps y-o-y. Going ahead, we expect the margin to improve from here onwards, with a favorable change in sales mix initiated by the company along with an overall improvement in business dynamics.

Q2FY16 Result - Consolidated (₹ mn)

Particulars	Q2FY16	Q2FY15	YoY (%)	Q1FY16	QoQ (%)
Income from operations	5,559.4	5,566.9	-0.1%	5,483.0	1.4%
Less: Expenditures					
Operating cost	4,372.3	4,509.2	-3.0%	4,392.8	-0.5%
Staff cost	367.9	310.0	18.7%	349.9	5.1%
Other operating & admin cost	381.5	332.7	14.7%	326.5	16.8%
EBITDA	437.7	415.0	5.5%	413.8	5.8%
EBITDA Margin	7.9%	7.5%	+10bps	7.5%	+40bps
Other Income	62.2	60.1	3.5%	40.1	55.1%
Depreciation	129.7	119.9	8.2%	127.6	1.6%
EBIT	370.2	355.2	4.2%	326.3	13.5%
Interest	70.4	83.2	-15.4%	67.9	3.7%
Profit Before Tax	299.8	272.0	10.2%	258.4	16.0%
Tax	66.9	58.3	14.8%	70.7	-5.4%
Profit after Tax	232.9	213.7	9.0%	187.7	24.1%
Net Profit	232.9	213.7	9.0%	187.7	24.1%

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Maintain 'Buy' with a price target of ₹333

Going ahead, we expect better growth traction on the back of expected improvement in the performance of the SCM and XPS divisions. TCIL currently trades at a PE of 19.6x and 15.9x of FY16E and FY17E earnings respectively. We maintain our 'Buy' rating on TCIL with SOTP price target of ₹333. We arrive at our target price by valuing XPS business and other businesses separately.

Segmental Snapshot	Q2FY16	Q2FY15	YoY(%)	Q1FY16	QoQ(%)
Revenue (₹mn)					
Transport	2,074	2,046	1.4	2,036.0	1.9
XPS	1,602	1,672	-4.2	1,595.0	0.4
SCM	1,590	1,565	1.6	1,512.5	5.2
Coastal shipping	320	290	10.6	368.8	-13.2
Wind Power	26.3	32.9	-20.1	17.6	49.4
Intersegments/ Others	(54)	(38)	40.9	(46.9)	14.5
Total	5,559	5,567	-0.1	5,483.0	1.4
EBIT (₹mn)					
Transport	36	18	104.6	23.6	51.7
XPS	122	110	11.4	110.8	10.4
SCM	85	86	-0.5	94.3	-9.4
Coastal shipping	47	58	-19.2	49.9	-6.2
Wind Power	19	25	-24.1	7.7	141.6
Total	309	296	4.5	286.3	7.9
EBIT Margins (%)					
			bps		bps
Transport	1.7	0.9	87	1.2	57
XPS	7.6	6.6	107	6.9	69
SCM	5.4	5.5	(11)	6.2	(86)
Coastal shipping	14.6	20.0	(538)	13.5	109
Wind Power	70.7	74.5	(375)	43.8	2,697
Total	5.6	5.3	25	5.2	33

INCOME STATEMENT					₹ mn
Particulars	Mar15	Mar16E	Mar17E	Mar18E	
Net Sales	24,167	27,814	32,306	37,207	
Total Income	24,167	27,814	32,306	37,207	
Total Expenditure	22,236	25,477	29,527	33,895	
Operating Expenses	17,735	20,360	23,583	26,789	
Employee Expenses	1,305	1,474	1,712	2,232	
Other Expenses	3,196	3,644	4,232	4,874	
Other Income	91	104	121	139	
EBIDTA (Excl. Other Income)	1,932	2,336	2,778	3,311	
EBIDTA (Incl. Other Income)	2,022	2,441	2,899	3,451	
Interest	333	335	371	354	
Gross Profit	1,689	2,106	2,528	3,097	
Depreciation	545	589	655	689	
Profit Before Tax & EO Items	1,144	1,517	1,873	2,408	
Profit Before Tax	1,144	1,517	1,873	2,408	
Tax	326	425	525	674	
Net Profit	818	1,092	1,349	1,734	
Minority Interest	2	0	0	0	
Net Profit	816	1,092	1,349	1,734	

BALANCE SHEET				
Particulars	Mar15	Mar16E	Mar17E	Mar18E
Sources of Funds				
Equity Capital	151	151	151	151
Other Reserves	5,936	6,810	7,889	9,276
Net Worth	6,087	6,961	8,040	9,427
Minority Interest	35	35	35	35
Secured Loans	2,836	3,536	3,536	3,536
Loan Funds	2,836	3,536	3,536	3,536
Deferred Tax Liability	293	293	293	293
Total Capital Employed	9,251	10,825	11,904	13,291

Applications of Funds				
Gross Block	8,858	10,358	11,358	12,358
Less: Accumulated Depreciation	3,718	4,307	4,962	5,651
Net Block	5,139	6,051	6,396	6,706
Investments	72	72	72	72

Current Assets, Loans & Advances				
Inventories	23	22	26	29
Sundry Debtors	4,346	5,001	5,809	6,690
Cash and Bank Balance	421	532	586	917
Loans and Advances	1,255	1,444	1,678	1,932
<i>sub total</i>	6,045	7,000	8,099	9,569

Less : Current Liab. & Prov.	2,005	2,298	2,663	3,057
Current Liabilities	2,005	2,298	2,663	3,057
<i>sub total</i>	2,005	2,298	2,663	3,057
Net Current Assets	4,039	4,702	5,436	6,512
Total Assets	9,251	10,825	11,904	13,291

E-estimates

CASH FLOW				
Particulars	Mar15	Mar16E	Mar17E	Mar18E
Profit before tax	1,144	1,517	1,873	2,408
Depreciation & w.o.	545	589	655	689
Net Interest Exp	333	335	371	354
Direct taxes paid	(326)	(425)	(525)	(674)
Change in Working Capital	(441)	(552)	(679)	(745)
Other	(2)	0	0	0
(A) CF from Opet. Activities	1,253	1,464	1,696	2,031
Capex	(1,329)	(1,500)	(1,000)	(1,000)
Free Cash Flow	(76)	(36)	696	1,031
Inc./ (Dec.) in Investments	8	0	0	0
(B) CF from Invt. Activities	(1,321)	(1,500)	(1,000)	(1,000)
Issue of Equity/ Preference	604	0	0	0
Inc./ (Dec.) in Debt	(59)	700	0	0
Interest exp net	(333)	(335)	(371)	(354)
Dividend Paid (Incl. Tax)	(163)	(218)	(270)	(347)
Other	12	0	0	0
(C) CF from Financing	61	147	(641)	(700)
Net Change in Cash	(7)	110	55	331
Opening Cash balances	428	421	532	586
Closing Cash balances	421	532	586	917

E-estimates

IMPORTANT RATIOS

Particulars	Mar15	Mar16E	Mar17E	Mar18E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	8.0	8.4	8.6	8.9
EBIDTA Margin (incl. O.I.)	8.4	8.8	9.0	9.3
Interest / Sales	1.4	1.2	1.1	1.0
Gross Profit Margin	7.0	7.6	7.8	8.3
Tax/PBT	28.5	28.0	28.0	28.0
Net Profit Margin	3.4	3.9	4.2	4.7

(B) As Percentage of Net Sales

Operating Expenses	73.4	73.2	73.0	72.0
Employee Expenses	5.4	5.3	5.3	6.0
Other Expenses	13.2	13.1	13.1	13.1

(C) Measures of Financial Status

Debt / Equity (x)	0.5	0.5	0.4	0.4
Interest Coverage (x)	6.1	7.3	7.8	9.8
Average Cost Of Debt (%)	11.6	10.5	10.5	10.0
Debtors Period (days)	65.6	65.6	65.6	65.6
Closing stock (days)	0.3	0.3	0.3	0.3
Inventory Turnover Ratio (x)	1,060.0	1,246.6	1,250.0	1,267.4
Fixed Assets Turnover (x)	2.7	2.7	2.8	3.0
Working Capital Turnover (x)	6.0	5.9	5.9	5.7

(D) Measures of Investment

EPS (₹) (excl EO)	10.8	14.4	17.8	22.9
CEPS (₹)	18.0	22.2	26.5	32.0
DPS (₹)	1.8	2.5	3.0	3.9
Dividend Payout (%)	17.1	17.1	17.1	17.1
Profit Ploughback (%)	82.9	82.9	82.9	82.9
Book Value (₹)	80.5	92.0	106.3	124.6
RoANW (%)	15.0	16.7	18.0	19.9
RoACE (%)	17.1	18.4	19.8	21.9
RoAIC (%) (Excl Cash & Invest.)	18.0	19.4	20.8	23.3

(E) Valuation Ratios

CMP (₹)	283	283	283	283
P/E (x)	26.2	19.6	15.9	12.3
Market Cap. (₹ Mn.)	21,409	21,409	21,409	21,409
MCap/ Sales (x)	0.9	0.8	0.7	0.6
EV (₹ Mn.)	23,824	24,414	24,359	24,028
EV/Sales (x)	1.0	0.9	0.8	0.6
EV/EBDITA (x)	12.3	10.4	8.8	7.3
P/BV (x)	3.5	3.1	2.7	2.3
Dividend Yield (%)	0.7	0.9	1.1	1.4

E-estimates

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Stock price return objective (12 Months)

Buy	> 15%
Accumulate	5 to 15%
Reduce	(-5) to 5%
Sell	< -5%

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