

Transport Corporation of India Ltd

Bloomberg Code: TRPC IN

India Research - Stock Broking

HOLD

Slower industrial growth affected the performance but demerger of express business to enhance valuation:

During 1HFY16E, the net profit of the company grew by 12.6% to Rs. 421 Mn on the back of 2.5% growth in the top-line at Rs. 11042 Mn. The EBITDA margin of the company remained almost flat during the period under review 7.7% in comparison to 7.6% during the same period previous year. Resultantly, the absolute EBITDA grew by 3.5% to Rs. 852 Mn. However, the net profit of the company grew by 12.6% to Rs. 421 Mn on the back of higher other income and lower interest cost. The other income of the company grew by 60% to Rs. 102 Mn while the finance charges declined by 12% to Rs. 138 Mn. Flat EBITDA margin was on account of lower revenue contribution from Express (XPS) and Supply Chain Solution (SCS) division which operates at higher margin.

Lower revenue growth is on account of flat growth in the Express (XPS) and Supply Chain Solution (SCS) division which reported -0.2% and 0.8% revenue growth respectively during the H1FY16. XPS division, which contributes almost 30% of the total revenue, witnessed slowdown due to decline in the movement of high value cargo. Moreover, the company's strategy to avoid high price competitive freight resulted in loss of volume. Despite the flat revenue growth, the segment has reported 7.4% growth at EBIT level to Rs. 2331 Mn as the EBIT margin improved to 7.3% from 6.8% during the corresponding period last year. The SCS division reported 0.8% revenue growth at Rs. 31029 Mn and contributed 28% to the total revenue. Auto continues to contribute 75% of the segment total revenue. During the period under review, the freight division of the company witnessed revival in growth on the back of new client addition, the segment reported 4.3% growth in revenue to Rs. 41014 Mn and the EBIT of the segment grew by 41.4% to Rs. 594 Mn. Sale from the seaway division grew by 20% to Rs. 6890 Mn on the back of new ship addition and service from Mundra to Cochin picking up.

Valuation and Outlook

We continue with our positive outlook for the company despite the slow performance during the first half of the current fiscal. Strong infrastructure of the company and government initiatives provide growth opportunities in the business. Moreover, the demerger plan of the company would also help in value unlocking for the express division of the company and thus enhance shareholders wealth. We thus revise the target price upwards from Rs. 300 to Rs. 358, an upside of 11%.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	21305	22265	24167	26909	31297
EBITDA	1737	1680	1932	2121	2593
EBITDA Margin (%)	8.2	7.5	8.0	7.9	8.3
Adj. Net Profit	695	716	814	926	1083
EPS (Rs.)	9.5	9.8	10.8	12.2	14.3
RoE (%)	17.1	15.4	14.6	14.0	14.6
PE (x)	33.8	32.9	30.0	26.4	22.6

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

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Recommendation (Rs.)

Initiation Price	225
CMP (as on Nov 30, 2015)	323
Target Price	358
Previous Target Price	300
Upside (%)	11

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	24640 / 369
52-wk High/Low (Rs.)	330 / 198
3M Avg. daily volume (mn)	0.2
Beta (x)	1.3
Sensex/Nifty	27079 / 8190
O/S Shares(mn)	76.1
Face Value (Rs.)	10.0

Shareholding Pattern (%)

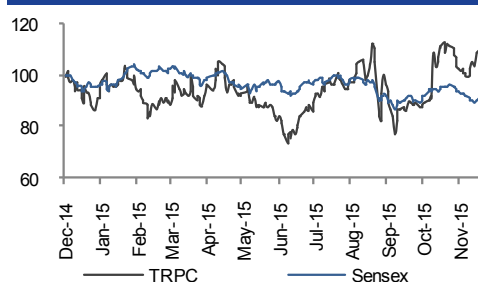
Promoters	66.5
FII's	2.9
DII's	6.5
Others	24.1

Stock Performance (%)

	1M	3M	6M	12M
Absolute	15	22	43	13
Relative to Sensex	17	23	52	23

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar (Rs. Mn)	FY16E	FY17E
Sales (%)	↓ (3.5)	↓ (3.4)
EBITDA (%)	↓ (12.9)	↓ (14.7)
PAT (%)	↓ (2.2)	↓ (5.3)

Source: Company, Karvy Research

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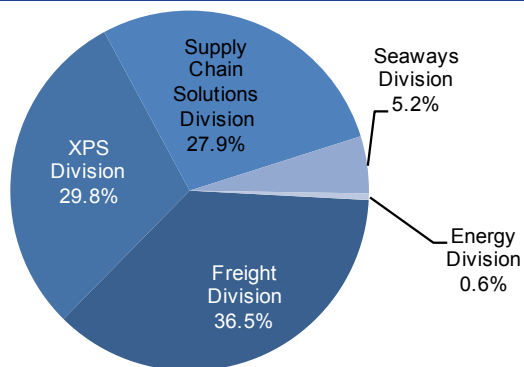
Exhibit 2: Q1 FY15

YE Mar (Rs. Mn)	Q2FY16	Q1FY16	QoQ %	Q2FY15	YoY %
Turnover	5559	5483	1.4	5567	(0.1)
Expenditure	5122	5069	1.0	5152	(0.6)
EBITDA	438	414	5.8	415	5.5
Depreciation	130	128	1.6	120	8.2
Interest	70	68	3.7	83	(15.4)
Other Income	62	40	55.1	60	3.5
PBT	300	258	16.0	272	10.2
Tax	67	71	(5.4)	58	14.8
PAT	233	188	24.1	214	9.0
EBITDA Margin (%)	7.9	7.5	32 bps	7.5	42 bps
EBIT Margin (%)	6.7	6.0	71 bps	6.4	28 bps
Net Profit Margin (%)	4.2	3.4	77 bps	3.8	35 bps

Source: Company, Karvy Research

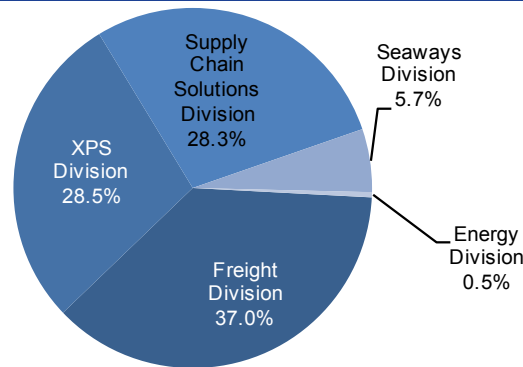
Quarterly Segmental Revenue Break-up

Exhibit 3: Q2FY15 September



Source: Company, Karvy Research

Exhibit 4: Q2FY16 September



Source: Company, Karvy Research

Exhibit 5: Segmental Financials

Segment-wise revenues (Rs. Mn)	Q2FY16	Q1FY16	QoQ %	Q2FY15	YoY %
Freight Division	2074	2036	1.9	2046	1.4
XPS Division	1602	1595	0.4	1672	(4.2)
Supply Chain Solutions Division	1590	1513	5.2	1565	1.6
Seaways Division	320	369	(13.2)	290	10.6
Energy Division	26	18	49.4	33	(20.1)
Total	5613	5530	1.5	5605	0.1
Segment-wise EBIT					
Freight Division	36	24	51.7	18	104.6
XPS Division	122	111	10.4	110	11.4
Supply Chain Solutions Division	85	94	(9.4)	86	(0.5)
Seaways Division	47	50	(6.2)	58	(19.2)
Energy Division	19	8	141.6	25	(24.1)
Total	309	286	7.9	296	4.5
EBIT Margin (%)					
Freight Division	1.7	1.2	57 bps	0.9	87 bps
XPS Division	7.6	6.9	69 bps	6.6	107 bps
Supply Chain Solutions Division	5.4	6.2	(86) bps	5.5	(11) bps
Seaways Division	14.6	13.5	109 bps	20.0	(538) bps
Energy Division	70.7	43.8	2697 bps	74.5	(375) bps
Overall	5.5	5.2	33 bps	5.3	23 bps

Source: Company, Karvy Research

Exhibit 6: Financials (Rs. Mn)

Adjusted Financials	Adj FY14	Adj FY15	FY16E	FY17E
Net Sales	22265	24167	26909	31297
EBITDA	1680	1932	2121	2593
EBITDA margin (%)	7.5	8.0	7.9	8.3
Adj. Net profit	716	814	926	1083
EPS (Rs.)	9.8	10.8	12.2	14.3
YoY growth (%)	2.9	9.5	13.8	17.0

Source: Company, Karvy Research

Key Takeaways of Conference Call:

High Growth Drivers:

Implementation of GST: GST is expected to get implemented sometime next year which would lead to consolidation in the warehousing and transportation. But, the impact would come only after 2-3 years as the IT system at the back-end is not entirely in place. Moreover, corporate would take a year for capitalizing on the whole GST framework by building warehouse and redesigning their supply chain. Once things are in place, the company is expected to witness addition in volume, as the business will start moving into organize space.

Growth in Omni channel or E-commerce: On this back drop, the company is seeing demand coming in for the e-fulfillment services and last mile delivery. As a cautionary statement, in the last few months there has been decline in the last mile delivery due to increasing completion. The company is expected to benefit in terms of higher e-fulfillment services as it enjoys 1.5 lakh unique orders per day.

Government push for the infrastructure development: Government projects like Sagar mala, Bharat mala in the infrastructure to drive future growth for the company.

Demand for logistics: The demand for the third party logistics services are expected to increase with new companies coming into the country as they have experience and knowledge to deal with Third Party Logistics (3PL) players like TCI.

Segment Performance:

Freight Business: The segment deals with Full Truck Load (FTL), Less than Truck Load (LTL) and sundry cargo. The division reported turnaround in the profitability on account of fall in the diesel prices and the company's focus towards LTL, which is also growing fast. During H1FY16, the segment reported 4% growth in the revenue and for the full year, the division is expected to report similar growth of 4-5%. The profitability is also expected to improve on the back of change in the product mix. The segment is witnessing growth in the multi-model logistics. The demand for road and rail has improved quite a lot in the last 2-3 months.

XPS division: In this division, the company witnessed slowdown in high value cargo movement. There was also some competitive environment which impacted the volume growth. Going forward, the company is making investment in the last mile delivery. Recently, the company has announced demerger of its express division into separate company, primarily focusing on the B2C segment. Post the approval of the concerned regulatory body, the company would be listed on the stock exchange.

Supply Chain Solution (SCS): 75% of the total revenue for the segment comes from auto. Despite the good growth in the auto, the division reported flat growth due to clearance of the inventory from last year. The warehousing side of the division is seeing good growth, where the demand for warehousing have improved significantly. The company is benefited by large warehouse capacity of 10.5 Mn sqft of managed space. The company is seeing good pipeline from E-commerce, retail and regular customers moving towards online space. The company expects good growth in the H2FY16 on account of these factors and new contracts. During the period under review, the company added capacity in terms of new trucks to meet the new contracts and also to replace the existing once.

Seaways Division: Growth was led by addition of new ship which was added in March 2015 and but came to full operation since April 2015. The segment witnessed capacity addition which lead to high competitive environment; and as a result, the company had to undertake rate cut. Going forward, the company expects similar kind of growth for the rest of the period, around 20-25%. Two dry docks during the period affected the profit.

Overall, the top-line of the company grew by 2.5%; and for the full year, it is expected to grow around 7-10%. The PAT of the company grew by 12.6%; and for the full year, it is expected to grow around 15-20%.

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Capital Expenditure

For the three next years, the company had capex plan of Rs. 5000 Mn. Out of the total capex, the company has already spend Rs. 1500 Mn in FY15. In FY16E, the company has scale down the earlier estimate of Rs. 2750 Mn to Rs.1500 Mn. During H1FY16, the company has already spend close to Rs. 820 Mn. Post demerger of the XPS division, the part of the capex would move to the new entity. However, the overall capex on consolidated basis would remain at Rs. 5000 Mn.

De-merger of XPS Division - Value unlocking

The rationale for the demerger is to focus on the express business which is expected to grow fast on the back of high growth opportunity in the E-commerce business in India.

Further, to attract different set of investors and strategic partners who are betting heavily on the India's express delivery business thus enhancing shareholders value.

Demerger would also enable TCIL to focus on its residual business and achieve greater synergies.

Post demerger, we expect the new entity to deliver gradual growth in the profitability as the company would undergo capital investment in the initial phase.

Key Highlights

October 8, 2015, the company has announced demerger of its XPS division into TCI Express Ltd, a wholly owned subsidiary of TCIL. TCI Express Ltd is engaged in the business of express cargo, logistics etc.

In accordance with the demerger, TCI Express Ltd would issue one equity share (of face value of Rs. 2) to shareholders of TCI Ltd for every two equity shares (of face value of Rs. 2) held.

Exhibit 7: Financials as on FY15 (Rs. Mn)

	TCIL	XPS Division	% Contribution
Income From Operation	22091	6589	30
Profit After Tax	759	279	37
Total Assets	10453	1680	16
Liabilities	4785	595	12

Source: Company, Karvy Research

Post demerger and allotment of shares as per the scheme, TCI Express Ltd would cease to remain a wholly owned subsidiary company of TCI Ltd; and the 100% equity shares held by TCIL in TCI Express would stand cancelled. The authorized share capital would increase to Rs. 100 Mn and paid up capital would be Rs. 76.07 Mn.

The appointed date for the demerger is Mar 31, 2016.

Exhibit 8: Financials

YE Mar (Rs. Mn)	FY16E			FY17E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	27887	26909	(3.5)	32413	31297	(3.4)	Delay in festive season and slow growth in certain industries affected the volume growth.
EBITDA	2434	2121	(12.9)	3041	2593	(14.7)	
EBITDA Margin (%)	8.7	7.9	(82) bps	9.4	8.3	(112) bps	Slow growth in the high margin express business is expected to impact the overall EBITDA margin of the company.
Adj. PAT	947	926	(2.2)	1144	1083	(5.3)	
EPS (Rs.)	12.5	12.2	(2.1)	15.1	14.3	(5.2)	

Source: Company, Karvy Research

Financials

Exhibit 9: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	21305	22265	24167	26909	31297
Growth (%)	9.0	4.5	8.5	11.3	16.3
Operating Expenses	19568	20585	22236	24789	28704
EBITDA	1737	1680	1932	2121	2593
Growth (%)	11.1	(3.3)	15.0	9.8	22.3
Depreciation & Amortization	464	468	545	628	783
Other Income	73	92	91	150	170
EBIT	1347	1304	1477	1643	1980
Interest Expenses	336	311	333	317	429
PBT	1010	993	1142	1326	1551
Tax	315	275	326	398	465
Adjusted PAT	695	716	814	926	1083
Growth (%)	16.8	3.0	13.6	13.8	17.0

Source: Company, Karvy Research

Exhibit 10: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Inventories	460	428	421	928	1065
Sundry Debtors	3951	3800	4346	4495	5034
Inventory	21	17	23	23	23
Loans & Advances	899	1172	1192	1402	1802
Investments	80	80	72	80	90
Gross Block	6367	6781	8051	9481	11671
Net Block	4099	4262	5176	6003	7436
CWIP	51	183	68	138	198
Miscellaneous	89	66	78	60	44
Total Assets	9650	10009	11376	13129	15692
Current Liabilities & Provisions	1478	1412	1645	1562	1630
Debt	3469	3307	3195	4255	5836
Other Liabilities	322	349	295	295	295
Total Liabilities	5269	5068	5134	6112	7760
Shareholders Equity	146	146	151	151	151
Reserves & Surplus	4224	4764	6056	6831	7746
Total Network	4370	4910	6207	6982	7897
Minority Interest	11	31	35	35	35
Total Network & Liabilities	9650	10009	11376	13129	15692

Source: Company, Karvy Research

Exhibit 11: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
PBT	1010	993	1144	1326	1551
Depreciation	464	468	545	628	783
Interest	336	311	333	317	429
Tax Paid	(264)	(280)	(278)	(404)	(481)
Inc/dec in Net WC	(462)	146	(446)	(232)	(472)
Other Income	(40)	(61)	(52)	(160)	(175)
Cash flow from operating activities	1044	1577	1246	1474	1635
Inc/dec in capital expenditure	(441)	(741)	(1364)	(1500)	(2250)
Inc/dec in investments	(63)	0	6	(8)	(10)
Others	(104)	(235)	147	(60)	(230)
Cash flow from investing activities	(608)	(976)	(1211)	(1568)	(2490)
Inc/dec in borrowings	134	(189)	(157)	1060	1581
Issuance of equity	10	8	619	0	0
Dividend paid	(91)	(140)	(170)	(143)	(161)
Interest paid	(336)	(311)	(333)	(317)	(429)
Cash flow from financing activities	(284)	(633)	(42)	600	992
Net change in cash	153	(32)	(7)	507	136

Source: Company, Karvy Research

Exhibit 12: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	8.2	7.5	8.0	7.9	8.3
EBIT Margin (%)	6.3	5.9	6.1	6.1	6.3
Net Profit Margin (%)	3.3	3.2	3.4	3.4	3.5
Dividend Payout Ratio (%)	10.5	13.2	13.9	13.9	13.3
Net Debt/Equity (x)	0.7	0.6	0.5	0.5	0.5
RoE (%)	17.1	15.4	14.6	14.0	14.6
RoCE (%)	18.0	16.2	16.8	15.9	15.9

Source: Company, Karvy Research

Exhibit 13: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	9.5	9.8	10.8	12.2	14.3
DPS (Rs.)	1.0	1.3	1.5	1.7	1.9
BV (Rs.)	60.0	67.3	82.0	92.3	104.4
PE (x)	33.8	32.9	30.0	26.4	22.6
P/BV (x)	5.4	4.8	3.9	3.5	3.1
EV/EBITDA (x)	2.8	2.8	2.4	2.4	2.6
EV/Sales (x)	0.2	0.2	0.2	0.2	0.2

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

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