

# Transport Corporation of India

BUY



Asian Markets Securities Pvt. Ltd.

**Growth momentum continued...**

## Institutional Research

CMP (Rs)	300
Target (Rs)	374

Nifty: 11,245; Sensex: 37,165

### Key Stock Data

BSE Code	532349
NSE Code	TCI
Bloomberg	TRPC IN
Shares O/smn (FV Rs 5)	75.7
Dividend Yield (%)	0.5
Market cap (Rs bn)	20.5
52-week high/low	375/182
3-m daily avg vol.	96,688

### Rel. Performance

(%)	1m	3m	12m
TCI	(4.9)	(16.1)	(10.2)
Nifty	(0.0)	2.3	11.6
Sensex	0.5	3.3	13.4

### Shareholding Pattern

(%)	Dec17	Mar18	Jun18
Promoter	66.1	66.1	67.0
FII	4.8	5.0	2.4
DII	6.4	7.6	7.9
Others	22.7	21.4	22.8

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Transport Corporation of India (TCI) continued its healthy growth momentum and reported Q1FY19 result was in-line with our estimates. It reported a y-o-y revenue growth of 17% to Rs 5.8bn which was supported by strong growth in SCM and coastal shipping divisions. Its largest transport segment also performed well. However, higher energy price has impacted its EBITDA margin by 20bps to 8.8%. Net Profit increased by 60% y-o-y to Rs 282mn. Relatively higher earnings growth was on account of higher other income along with lower interest and depreciation outlays. Overall, all segments have performed well and expected to maintain the growth momentum going ahead. Maintain 'Buy'

### Strong momentum across all divisions

TCI maintained the growth trajectory as it reported a y-o-y growth of 17% in revenues to Rs 5.8bn. We believe underline volume growth would be ~15%. All its business vertical reported a growth. Its largest trucking division reported a y-o-y growth of 14% to Rs 3bn. Post GST normalcy across trades and overall pick up in industrial activities helped the transport division in reporting relatively higher growth as compared to its normal growth trajectory of 8-10%. Going ahead we believe the growth in trucking division will see some moderation at 10-12%. Though there are enough growth opportunities for transport division but the management doesn't not want chase the growth beyond 10% run rate as the transport business is relatively lower margin business and requires high working capital. Thus, the pursuing higher growth in transport division may impact the overall profitability and working capital of the company.

The Coastal shipping division continued to perform well by recording a growth of 23% y-o-y to Rs 715mn on the back of recent vessel addition on the west coast and strong growth from older ships. The new ship addition expected to contribute revenue of ~Rs 120mn and adjusting the same the growth from older ships would be ~7%. Further, the company added one more container ship in March'18 (largest ship in its portfolio) and deployed it on western coast. The new ship addition will continue to support growth in coastal shipping division.

### SCM maintained the strong growth trajectory; grew by 20% y-o-y

SCM division maintained the growth trajectory by recording a y-o-y growth of 20%. The growth traction in SCM was supported by ongoing improvement in automobile sector and manufacturing sector. New SCM contracts from consumer goods and e-commerce (fulfillment center management) sectors also boosted the growth. About 2/3rd of SCM growth came from existing clients and 1/3rd came from new client additions. The company currently has ~60 SCM clients.

With ongoing growth momentum in automobile sector (domestic & export) and overall pick up in industrial activities SCM will continue to see healthy growth traction. Further, post GST implementation the company has witnessed a surge on customer enquiries which we believe will provide additional growth booster through incremental new SCM accounts.

### Higher other income and lower interest cost boosted earnings

Increased in energy prices and other operating overhead has impacted EBITDA margin by 20bps to 8.8%. Impact of higher energy price is more visible in coastal shipping division which witnessed ~100bps margin contraction. However, we expect overall margin recovery in the coming quarters on the back of pass-through of high energy prices to customers and better growth traction in high margin SCM business.

### Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Sales	17,270	19,427	23,461	27,155	30,740
yoy (%)	(28.5)	12.5	20.8	15.7	13.2
EBITDA	1,283	1,607	2,127	2,662	3,121
yoy (%)	(33.6)	25.2	32.4	25.1	17.3
Reported PAT	565	813	1,238	1,583	1,910
yoy (%)	(30.5)	43.7	52.4	27.8	20.7
Equity	152	153	153	153	153
EPS	7.4	10.6	16.2	20.7	24.9

### Exhibit 2: Key Indicators

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDAM (%)	7.4	8.3	9.1	9.8	10.2
NPM (%)	3.3	4.2	5.3	5.8	6.2
PER (x)	40.4	28.3	18.6	14.5	12.0
P/BV (x)	4.0	3.5	3.0	2.6	2.2
EV/Sales (x)	1.5	1.4	1.1	1.0	0.9
EV/EBITDA (x)	20.1	16.5	12.6	10.2	8.6
RoCE (%)	9.4	11.8	14.8	17.1	17.8
RoE (%)	9.5	13.3	17.6	19.1	19.4

Source: Company, AMSEC Research

### Outlook and Valuation

TCI will see CAGR of 14.5% and 24.2% in revenues and earnings respectively over FY18-20E. The strategy to focus more on higher margin services would enhance its profitability in coming years. GST implication will act as growth catalyst for large SCM players like TCI and will fetch the larger basket of growth avenues. At CMP, TCI is trading at 15x FY19E and 12x FY20E consolidated earnings. We maintain 'Buy' rating on TCI with a price target of Rs 374, based on 15x FY20E earnings..

### Exhibit 3: 1QFY19 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	y-o-y change	q-o-q change	FY18	FY17	y-o-y change
<b>Income from operations</b>	<b>4,969</b>	<b>5,203</b>	<b>5,553</b>	<b>6,053</b>	<b>5,815</b>	<b>17.0%</b>	<b>-3.9%</b>	<b>21,778</b>	<b>18,062</b>	<b>20.6%</b>
Less: Expenditures										
Operating cost	3,981	4,175	4,501	4,833	4,715	18.4%	-2.4%	17,490	14,541	20.3%
Staff cost	287	296	295	330	333	16.3%	0.8%	1,208	1,035	16.8%
Other operating & admin	250	232	231	285	254	1.9%	-10.6%	997	904	10.2%
<b>EBITDA</b>	<b>452</b>	<b>501</b>	<b>526</b>	<b>605</b>	<b>513</b>	<b>13.6%</b>	<b>-15.1%</b>	<b>2,083</b>	<b>1,582</b>	<b>31.7%</b>
EBITDA Margin	0	0	0	0	0	-2.9%	-11.6%	0	0	+40BPS
Other Income	9	71	72	93	82	776.6%	-10.9%	245	158	55.4%
Depreciation	160	175	176	162	168	5.0%	3.8%	673	578	16.5%
<b>EBIT</b>	<b>301</b>	<b>397</b>	<b>422</b>	<b>535</b>	<b>428</b>	<b>42.0%</b>	<b>-20.1%</b>	<b>1,655</b>	<b>1,162</b>	<b>42.4%</b>
Interest	78	74	79	68	70	-10.3%	3.4%	299	274	9.2%
Profit Before Tax	223	323	343	467	357	60.4%	-23.5%	1,356	888	52.7%
Tax	47	67	64	101	75	61.9%	-25.1%	278	185	50.5%
<b>Profit after Tax</b>	<b>176</b>	<b>255</b>	<b>279</b>	<b>367</b>	<b>282</b>	<b>60.0%</b>	<b>-23.1%</b>	<b>1,077</b>	<b>703</b>	<b>53.3%</b>
Extraordinary items	-	-	-	(40)	-	-	-	(40)	0	-
<b>Net Profit</b>	<b>176</b>	<b>255</b>	<b>279</b>	<b>327</b>	<b>282</b>	<b>60.0%</b>	<b>-13.7%</b>	<b>1,037</b>	<b>703</b>	<b>47.5%</b>
EPS (Rs)	2.30	3.34	3.65	4.27	3.68	60.0%	-13.7%	13.55	9.6	41.2%
<b>Operating Matrix</b>						bps	bps			bps
Operating cost/Sales	80.1%	80.2%	81.0%	79.9%	81.1%	96	122	80.3%	80.5%	(19)
Staff cost/Sales	5.8%	5.7%	5.3%	5.5%	5.7%	(4)	27	5.5%	5.7%	(18)
Others/Sales	5.0%	4.5%	4.2%	4.7%	4.4%	(65)	(33)	4.6%	5.0%	(43)
EBITDA Margin	9.1%	9.6%	9.5%	10.0%	8.8%	(27)	(116)	9.6%	8.8%	81
Net Margin	3.5%	4.9%	5.0%	5.4%	4.8%	130	(55)	4.8%	3.9%	87
ETR	20.9%	20.9%	18.6%	21.5%	21.1%	20	(44)	20.5%	20.8%	(30)

Source: Company, AMSEC Research,

### Exhibit 4: 4QFY18 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	y-o-y change	q-o-q change	FY18	FY17	y-o-y change
<b>Revenue</b>										
Transport	2,436	2,305	2,586	2,984	2,783	14.2%	-6.7%	10,311	9,223	11.8%
SCM	1,984	2,339	2,364	2,439	2,375	19.7%	-2.6%	9,126	7,374	23.7%
Coastal	581	579	661	744	715	23.1%	-3.9%	2,564	1,639	56.4%
Wind Power	24	32	7	6	23	-5.8%	312.7%	68	74	-7.5%
Intersegments/ Others	(56)	(51)	(64)	(120)	(80)	44.1%	-33.0%	(291)	(249)	17.2%
<b>Total</b>	<b>4,969</b>	<b>5,203</b>	<b>5,553</b>	<b>6,053</b>	<b>5,815</b>	<b>17.0%</b>	<b>-3.9%</b>	<b>21,778</b>	<b>18,062</b>	<b>20.6%</b>
<b>EBIT</b>										
Transport	48.9	70.5	83.3	99.8	69.5	42.1%	-30.4%	302.5	212.7	42.2%
SCM	117.6	157.0	140.5	190.0	162.7	38.4%	-14.4%	605.1	447.3	35.3%
Coastal	118.9	98.3	145.0	229.1	136.4	14.7%	-40.5%	591.3	381.8	54.9%
Wind Power	15.1	23.4	(2.1)	(1.3)	14.1	-6.6%	-1184.6%	35.1	39.4	-10.9%
<b>Total</b>	<b>300.5</b>	<b>349.2</b>	<b>366.7</b>	<b>517.6</b>	<b>382.7</b>	<b>27.4%</b>	<b>-26.1%</b>	<b>1,534.0</b>	<b>1,081.2</b>	<b>41.9%</b>
<b>EBIT Margins</b>						bps	bps			
Transport	2.0%	3.1%	3.2%	3.3%	2.5%	49	(84.7)	2.9%	2.3%	62.8
SCM	5.9%	6.7%	5.9%	7.8%	6.8%	92.2	(94.1)	6.6%	6.1%	56.5
Coastal	20.5%	17.0%	22.0%	30.8%	19.1%	(140.2)	(1,171.2)	23.1%	23.3%	(23.1)
Wind Power	62.7%	74.1%	-29.6%	-23.6%	62.1%	(54.1)	8,575.1	51.4%	53.4%	(199.7)
<b>Total</b>	<b>6.0%</b>	<b>6.7%</b>	<b>6.6%</b>	<b>8.6%</b>	<b>6.6%</b>	<b>53.3</b>	<b>(197.1)</b>	<b>7.0%</b>	<b>6.0%</b>	<b>105.8</b>

Source: Company, AMSEC Research

**Financials (Consolidated)****(Rs mn)****Profit and Loss Account**

Y/E (Mar)	FY16	FY17	FY18	FY19E	FY20E
<b>Operating Income</b>	<b>17,270</b>	<b>19,427</b>	<b>23,461</b>	<b>27,155</b>	<b>30,740</b>
Other operating income					
Operating expenses	14,034	15,821	19,068	21,778	24,545
Staff expenses	980	1,068	1,245	1,494	1,691
Selling, admin and other expenses	974	931	1,021	1,222	1,383
<b>EBITDA</b>	<b>1,283</b>	<b>1,607</b>	<b>2,127</b>	<b>2,662</b>	<b>3,121</b>
Depreciation	521	592	687	740	819
<b>Operating profit</b>	<b>762</b>	<b>1,015</b>	<b>1,441</b>	<b>1,922</b>	<b>2,302</b>
Other income	78	122	182	210	238
<b>EBIT</b>	<b>840</b>	<b>1,137</b>	<b>1,623</b>	<b>2,133</b>	<b>2,540</b>
Interest	239	288	322	357	378
Exceptional items	-	-	-	-	-
<b>Profit before tax</b>	<b>601</b>	<b>849</b>	<b>1,301</b>	<b>1,775</b>	<b>2,162</b>
Tax	154	191	287	444	540
Share in Profit from JV & associates	119	155	224	251	289
<b>PAT</b>	<b>565</b>	<b>813</b>	<b>1,238</b>	<b>1,583</b>	<b>1,910</b>
EO Items	-	-	-	-	-
<b>Net Profit</b>	<b>565</b>	<b>813</b>	<b>1,238</b>	<b>1,583</b>	<b>1,910</b>
Share O/s mn	76.1	76.6	76.6	76.6	76.6
<b>EPS Rs</b>	<b>7.4</b>	<b>10.6</b>	<b>16.2</b>	<b>20.7</b>	<b>24.9</b>

**Cash Flow Statement**

Y/E (Mar)	FY16	FY17	FY18	FY19E	FY20E
PBT	601	849	1,301	1,775	2,162
Non-cash adjustments	885	880	1,009	1,097	1,198
Chg in working capital	637	(806)	(314)	(635)	(627)
Tax & Interest Paid	(318)	(191)	(287)	(444)	(540)
<b>Cashflow from oper.</b>	<b>1,766</b>	<b>731</b>	<b>1,709</b>	<b>1,794</b>	<b>2,192</b>
Capital expenditure	(1,740)	(1,039)	(1,050)	(1,500)	(1,500)
Chg in investments	-	(120)	(144)	-	-
Other invest. cashflow	802	-	-	-	-
<b>Cashflow from invest</b>	<b>(938)</b>	<b>(1,159)</b>	<b>(1,195)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Issue of equity	36	1	-	-	-
Issue/repay debt	-	-	-	-	-
Interest Paid	(295)	(288)	(322)	(357)	(378)
Inc./(Dec.) Loan Funds	766	649	158	500	-
Dividends paid	(182)	(214)	(142)	(214)	(214)
Other finan.cashflow	(1,457)	352	(254)	-	-
<b>Cashflow from finan.</b>	<b>(1,133)</b>	<b>501</b>	<b>(561)</b>	<b>(71)</b>	<b>(592)</b>
<b>Chg cash &amp; cash eq</b>	<b>(304)</b>	<b>73</b>	<b>(48)</b>	<b>223</b>	<b>100</b>
<b>Open cash &amp; cash eq</b>	<b>421</b>	<b>117</b>	<b>190</b>	<b>142</b>	<b>365</b>
<b>Clsq cash &amp; cash eq</b>	<b>117</b>	<b>190</b>	<b>142</b>	<b>365</b>	<b>465</b>
<b>Free cashflow to firm</b>	<b>27</b>	<b>(308)</b>	<b>658</b>	<b>294</b>	<b>692</b>

**Balance Sheet**

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS :</b>					
Share Capital	152	153	153	153	153
Reserves	5,618	6,338	7,465	8,834	10,530
<b>T. Shareholders Funds</b>	<b>5,770</b>	<b>6,491</b>	<b>7,618</b>	<b>8,987</b>	<b>10,683</b>
Minority interest	39	43	47	47	47
<b>Non-Current Liab.</b>					
Long term borrowings	3,146	3,795	3,953	4,453	4,453
Deferred tax liability	323	395	445	445	445
<b>Current Liab. &amp; Prov.</b>	<b>1,336</b>	<b>1,595</b>	<b>1,915</b>	<b>2,206</b>	<b>2,489</b>
<b>Total Equity &amp; Liab.</b>	<b>10,614</b>	<b>12,319</b>	<b>13,978</b>	<b>16,138</b>	<b>18,117</b>
<b>APPLICATION OF FUNDS :</b>					
<b>Non Current Assets</b>					
Fixed Assets	5,447	5,894	6,258	7,018	7,699
Capital work in progress	-	-	563	563	563
Goodwill	-	-	-	-	-
Noncurrent investment	779	899	1,044	1,295	1,583
<b>Current Assets</b>					
Inventories	18	25	33	24	27
Sundry debtors	3,253	3,570	4,249	4,917	5,567
Cash and bank	117	190	142	365	465
Short loans and advances	1,000	1,741	1,689	1,955	2,213
<b>Total Assets</b>	<b>10,614</b>	<b>12,319</b>	<b>13,978</b>	<b>16,138</b>	<b>18,117</b>
Net working capital	2,935	3,741	4,055	4,690	5,317
Total Gross Debt	3,146	3,795	3,953	4,453	4,453
Total Net debt	3,029	3,606	3,811	4,088	3,988
Total capital employed	9,278	10,724	12,062	13,931	15,627

**Key Ratios**

Y/E (Mar)	FY16	FY17	FY18	FY19E	FY20E
<b>PER SHARE</b>					
EPS Rs	7.4	10.6	16.2	20.7	24.9
CEPS Rs	14.3	18.3	25.1	30.3	35.6
Book Value Rs	75.9	84.7	99.4	117.3	139.5
<b>VALUATION</b>					
EV / Net Sales	1.5	1.4	1.1	1.0	0.9
EV / EBITDA	20.1	16.5	12.6	10.2	8.6
P / E Ratio	40.4	28.3	18.6	14.5	12.0
P / BV Ratio	4.0	3.5	3.0	2.6	2.2
<b>GROWTH YOY%</b>					
Sales Growth	-28.5	12.5	20.8	15.7	13.2
EBITDA Growth	-33.6	25.2	32.4	25.1	17.3
Net Profit Growth	-30.5	43.7	52.4	27.8	20.7
Gross Fixed Asset Growth	9.4	10.7	9.8	12.7	11.3
<b>PROFITABILITY</b>					
Gross Profit/ Net sales (%)					
EBITDA / Net Sales (%)	7.4	8.3	9.1	9.8	10.2
EBIT / Net sales (%)	4.9	5.9	6.9	7.9	8.3
NPM / Total income (%)	3.3	4.2	5.3	5.8	6.2
ROE (%)	9.5	13.3	17.6	19.1	19.4
ROCE (%)	9.4	11.8	14.8	17.1	17.8
Tax / PBT %	25.6	22.5	22.0	25.0	25.0
<b>TURNOVER</b>					
Net Working Cycle					
Debtors Velocity (Days)	68.8	67.1	66.1	66.1	66.1
Inventory (Days)	0.5	0.6	0.6	0.4	0.4
Creditors Velocity (Days)					
Current Ratio	3.3	3.5	3.2	3.3	3.3
Quick Ratio	3.3	3.4	3.2	3.3	3.3
<b>LIQUIDITY</b>					
Gross Asset Ratio	1.9	1.9	2.1	2.2	2.2
Total Asset Ratio	1.9	1.9	2.1	2.1	2.1
Net Debt-Equity Ratio	0.5	0.6	0.5	0.5	0.4
Interest Coverage	3.2	3.5	4.5	5.4	6.1
<b>PAYOUT</b>					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	119.8	139.4	92.9	139.4	139.4
Yield %	0.8	0.9	0.6	0.9	0.9

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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