

## Transport Corporation of India

**BUY**



Asian Markets Securities Pvt. Ltd.

**Decent performance despite sluggish demand environment**

### Institutional Research

CMP (Rs)	270
Target (Rs)	360
Upside (%)	33%

Nifty: 11,189      Sensex: 37,686

### Key Stock Data

Bloomberg	TRPC IN
Shares O/s Mn (FV INR10)	76.7
Mkt Cap(USD Mn/INR Bn)	0.3/20.7
52-week high/low	376/231
6m daily avg vol(INR Mn)	14
Free Float %	35

### Price Performance

(%)	3m	1yr	3yr
TRPC	(7.7)	(4.3)	6.3
Nifty	(4.1)	0.3	10.5
NSE500	(5.3)	(4.2)	8.8
BSE Midcap	(5.3)	(4.2)	3.7

	2yr	3yr	5yr
Avg.PER (x)	14.2	14.6	17.6

### Shareholding Pattern

(%)	Dec18	Mar19	Jun19
Promoter	66.9	66.9	66.9
FII	4.6	4.5	1.9
DII	8.1	8.5	9.3
Others	20.4	20.1	21.9

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On the back of sluggish demand environment, TCI witnessed a growth moderation especially in its SCM division where it derives large part of its revenue from auto industry. Sales growth of 5.3% y-o-y to Rs 6.1bn was bit lower than our estimates due to lower than expected growth in SCM division. Its largest trucking division grew by 7.4% y-o-y to Rs 2.9bn. SCM division was sluggish and reported a 1% y-o-y growth due to ongoing slowdown in auto sector. The Coastal shipping division reported a y-o-y growth of 10%. EBITDA margin improved by 40bps y-o-y to 9.2% mainly on account of cost control initiatives and stable fuel price prices. PAT was up by 6% y-o-y to Rs 297mn. Relatively lower earnings growth was on account of lower other income and higher interest outlay. Overall, all segments witnessed a growth moderation due to slower demand and expected to see growth recovery in H2FY20. **Maintain 'BUY'**

### Growth moderation across all divisions

TCI reported a y-o-y growth of 5.3% in revenues to Rs 6.1bn. We believe underline volume growth would be ~5%. All its business vertical reported a growth moderation. Its largest trucking division reported a y-o-y growth of 7.4% to Rs 2.9bn as against 17% and 10% growth in FY19 & Q4FY19 respectively. Large part of the growth in trucking division came from its LTL segment which grew by 10% y-o-y and contributes ~1/3<sup>rd</sup> of the trucking revenue. Going ahead we believe the growth in trucking division will see 10-12% mainly on account of higher growth traction in LTL segment and modest growth in FTL segment. We expect FTL and LTL segments to grow at 7-8% and 12-15% respectively over the medium term. Though there are enough growth opportunities for FTL segment, but the management doesn't not want to 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 also witnessed a growth moderation due to tepid demand environment. Sales grew by 10% y-o-y to Rs 789mn as compare to growth of 40% and 47% in FY19 & Q4FY19 respectively. The new ship which added in H2FY19 is yet to reach its full scale which we believe will happen gradually over the coming few quarters.

### Muted growth in SCM albeit on a higher base and slowdown in domestic auto sector

SCM division reported a muted growth of 1% y-o-y in revenue to Rs 2.4bn. Muted performance was on account of higher base (20% growth in the base quarter) along with sluggish domestic auto sector. However, industrial automotive, OEM and auto exports business has been doing reasonably well. Overall, auto segment is contributing 3/4<sup>th</sup> of SCM revenue and declined by low single digit in Q1FY20 whereas no-auto clients are contributing 1/4<sup>th</sup> of SCM revenue and witnessed double digit sales growth.

Going ahead, we expect SCM division will see growth pick up from the current level on the back of new customer additions and overall uptick in industrial activities. Further, post GST implementation the company has witnessed a surge in customer enquiries especially from non-auto segments which we believe will provide additional growth booster through incremental new SCM accounts. Despite generating significant revenue from automobile sector, SCM division is not affected severally from ongoing slowdown in auto sector mainly because of 1) Diversified and larger pool of client base 2) Sizable inbound logistics business 3) diversified services within the auto logistics and 4) servicing to multiple automobile segments like CVs, Two wheelers, PVs, Tractors, industrials etc.

### Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Sales	19,427	23,461	27,537	30,847	35,417
yoy (%)	12.5	20.8	17.4	12.0	14.8
EBITDA	1,607	2,127	2,495	2,931	3,471
yoy (%)	25.2	32.4	17.3	17.4	18.4
PAT	813	1,238	1,453	1,727	2,123
yoy (%)	43.7	52.4	17.3	18.9	22.9
EBITDAM (%)	8.3%	9.1%	9.1%	9.5%	9.8%
NPM (%)	4.2%	5.3%	5.3%	5.6%	6.0%
EPS (Rs)	10.6	16.2	19.0	22.5	27.7

Source: Company, AMSEC Research

### Exhibit 2: Key Indicators

Y/E Mar	FY17	FY18	FY19	FY20E	FY21E
Equity	153.2	153.2	153.3	153.3	153.3
RoE (%)	13.3	17.6	17.6	17.9	18.6
RoCE (%)	11.8	14.8	15.6	16.3	17.3
ROIC (%)	10.8	13.6	14.4	15.1	16.5
D:E (x)	0.6	0.5	0.5	0.4	0.4
PER (x)	25.5	16.7	14.2	12.0	9.7
P/BV (x)	3.2	2.7	2.3	2.0	1.7
EV/Sales (x)	1.3	1.0	0.9	0.8	0.7
EV/EBITDA (x)	15.1	11.5	9.9	8.5	7.1

### EBITDA margin improved by 40bps y-o-y to 9.2%

EBITDA margin improved by 40bps y-o-y to 9.2% on the back of stable fuel prices and cost control initiatives. Transport division has been witnessing favorable change in its sales mix towards high margin LTL segment where the margin is almost double of margin FTL segment. Despite growth moderation, SCM segment witnessed a stable margin and coastal shipping also witnessed a decent margin improvement. Net profit grew by 5.5% y-o-y to Rs 297mn. Relatively lower earnings growth was on account of lower other income and higher interest outlay.

### Outlook & Valuation

We expect, TCI to see CAGR of 13.4% and 21% in consolidated revenues and earnings respectively over the next two years. The strategy to focus more on higher margin services would enhance its profitability in coming years. Further, better growth traction LTL segment will also support the margin expansion. GST implication is acting as growth catalyst for large SCM players like TCI and will fetch the larger basket of growth avenues. However, we see some growth moderation in SCM division over the near-medium term on the back of ongoing slowdown in automobile sector. At CMP, TCI is trading at 12x FY20E and 10x FY21E consolidated earnings. We maintain 'Buy' rating on TCI with a price target of Rs 360, based on 13x FY21E earnings.

### Exhibit 3: 1QFY20 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Y-o-y change	Q-o-Q change	FY19	FY18	Y-o-y change
<b>Income from operations</b>	<b>5,815</b>	<b>6,203</b>	<b>6,625</b>	<b>6,918</b>	<b>6,121</b>	<b>5.3%</b>	<b>-11.5%</b>	<b>25,561</b>	<b>21,778</b>	<b>17.4%</b>
Less: Expenditures										
Operating cost	4,715	5,066	5,438	5,475	4,942	4.8%	-9.7%	20,695	17,490	18.3%
Staff cost	333	347	340	338	372	11.7%	10.1%	1,358	1,208	12.4%
Other expenses	254	259	242	334	245	-3.8%	-26.7%	1,088	997	9.2%
<b>EBITDA</b>	<b>513</b>	<b>531</b>	<b>605</b>	<b>771</b>	<b>562</b>	<b>9.5%</b>	<b>-27.1%</b>	<b>2,420</b>	<b>2,083</b>	<b>16.2%</b>
Other Income	82	81	81	46	75	-8.6%	64.8%	291	245	18.6%
Depreciation	168	191	205	189	186	10.8%	-1.4%	752	673	11.7%
<b>EBIT</b>	<b>428</b>	<b>422</b>	<b>482</b>	<b>628</b>	<b>451</b>	<b>5.5%</b>	<b>-28.1%</b>	<b>1,959</b>	<b>1,655</b>	<b>18.4%</b>
Interest	70	93	102	91	82	17.2%	-9.2%	356	299	18.9%
Profit Before Tax	357	329	380	537	369	3.2%	-31.3%	1,603	1,356	18.2%
Tax	75	70	80	101	72	-5.0%	-29.1%	326	278	17.3%
<b>Profit after Tax</b>	<b>282</b>	<b>259</b>	<b>300</b>	<b>436</b>	<b>297</b>	<b>5.5%</b>	<b>-31.8%</b>	<b>1,276</b>	<b>1,077</b>	<b>18.5%</b>
Extraordinary items	-	-	-	-	-	NA	NA	-	(40)	NA
<b>Net Profit</b>	<b>282</b>	<b>259</b>	<b>300</b>	<b>436</b>	<b>297</b>	<b>5.5%</b>	<b>-31.8%</b>	<b>1,276</b>	<b>1,037</b>	<b>23.0%</b>
EPS	3.68	3.37	3.91	5.69	3.88	5.5%	-31.8%	16.6	13.5	22.9%
<b>Operating Matrix</b>						bps	bps			bps
Operating cost/Sales	81.1%	81.7%	82.1%	79.1%	80.7%	(33)	160	81.0%	80.3%	65
Staff cost/Sales	5.7%	5.6%	5.1%	4.9%	6.1%	35	119	5.3%	5.5%	(24)
Others/Sales	4.4%	4.2%	3.6%	4.8%	4.0%	(38)	(83)	4.3%	4.6%	(32)
EBITDA Margin	8.8%	8.6%	9.1%	11.1%	9.2%	36	(196)	9.5%	9.6%	(10)
Net Margin	4.8%	4.2%	4.5%	6.3%	4.9%	1	(145)	5.0%	4.8%	23
ETR	21.1%	21.3%	21.1%	18.8%	19.4%	(169)	61	20.4%	20.5%	(16)

Source: Company, AMSEC Research,

### Exhibit 4: 1QFY20 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Y-o-y change	Q-o-Q change	FY19	FY18	Y-o-y change
<b>Revenue</b>				<b>9.6%</b>						
Transport	2,783	2,932	3,112	3,270	2,990	7.4%	-8.6%	12,096	10,311	17.3%
SCM	2,375	2,552	2,608	2,654	2,391	0.7%	-9.9%	10,189	9,126	11.7%
Coastal	715	788	1,002	1,088	789	10.3%	-27.5%	3,593	2,564	40.1%
Wind Power	23	33	6	7	15	-35.2%	104.2%	69	68	1.5%
Intersegments/ Others	(80)	(103)	(23)	(54)	13	-115.8%	-123.4%	(260)	(291)	-10.7%
<b>Total</b>	<b>5,815</b>	<b>6,203</b>	<b>6,706</b>	<b>6,964</b>	<b>6,196</b>	<b>6.5%</b>	<b>-11.0%</b>	<b>25,688</b>	<b>21,778</b>	<b>18.0%</b>
<b>EBIT</b>										
Transport	69.5	82.1	100.3	131.6	83.0	19.4%	-36.9%	383.5	302.5	26.8%
SCM	162.7	184.1	155.1	208.4	167.5	3.0%	-19.6%	710.3	605.1	17.4%
Coastal	136.4	116.2	188.3	294.1	156.5	14.7%	-46.8%	735.0	591.3	24.3%
Wind Power	14.1	24.6	(2.7)	(1.9)	5.3	-62.4%	-378.9%	34.1	35.1	-2.8%
<b>Total</b>	<b>382.7</b>	<b>407.0</b>	<b>441.0</b>	<b>632.2</b>	<b>412.3</b>	<b>7.7%</b>	<b>-34.8%</b>	<b>1,862.9</b>	<b>1,534.0</b>	<b>21.4%</b>
<b>EBIT Margin</b>						bps	bps			
Transport	2.5%	2.8%	3.2%	4.0%	2.8%	28	(124.9)	3.2%	2.9%	23.7
SCM	6.8%	7.2%	5.9%	7.9%	7.0%	15.6	(84.7)	7.0%	6.6%	34.0
Coastal	19.1%	14.7%	18.8%	27.0%	19.8%	76.8	(719.3)	20.5%	23.1%	(260.6)
Wind Power	62.1%	73.7%	-45.0%	-26.4%	36.1%	(2,606.0)	6,244.3	49.2%	51.4%	(218.5)
<b>Total</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>9.1%</b>	<b>6.7%</b>	<b>7.3</b>	<b>(242.4)</b>	<b>7.3%</b>	<b>7.0%</b>	<b>20.8</b>

Source: Company, AMSEC Research

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

<b>Profit and Loss Account</b>						<b>Cash Flow Statement</b>					
Y/E (Mar)	FY17	FY18	FY19	FY20E	FY21E	Y/E (Mar)	FY17	FY18	FY19	FY20E	FY21E
<b>Operating Income</b>	<b>19,427</b>	<b>23,461</b>	<b>27,537</b>	<b>30,847</b>	<b>35,417</b>	PBT	1,004	1,525	1,786	1,914	2,383
Other operating income						Non-cash adjustments	869	1,005	1,141	1,235	1,339
Operating expenses	15,821	19,068	22,515	24,863	28,369	Chg in working capital	(637)	(342)	(719)	(568)	(817)
Staff expenses	1,068	1,245	1,402	1,697	1,948	Tax & Interest Paid	(250)	(368)	(342)	(478)	(596)
Selling, admin and other expenses	931	1,021	1,124	1,357	1,629	<b>Cashflow from oper.</b>	<b>988</b>	<b>1,801</b>	<b>1,830</b>	<b>2,103</b>	<b>2,309</b>
<b>EBITDA</b>	<b>1,607</b>	<b>2,127</b>	<b>2,495</b>	<b>2,931</b>	<b>3,471</b>	Capital expenditure	(1,138)	(1,511)	(1,259)	(1,800)	(1,500)
Depreciation	592	687	774	862	944	Chg in investments	(16)	(8)	56	-	-
<b>Operating profit</b>	<b>1,015</b>	<b>1,441</b>	<b>1,721</b>	<b>2,068</b>	<b>2,527</b>	Other invest. cashflow	(78)	(27)	(373)	-	-
Other income	122	182	195	219	251	<b>Cashflow from invest</b>	<b>(1,231)</b>	<b>(1,546)</b>	<b>(1,576)</b>	<b>(1,800)</b>	<b>(1,500)</b>
<b>EBIT</b>	<b>1,137</b>	<b>1,623</b>	<b>1,916</b>	<b>2,287</b>	<b>2,778</b>	Issue of equity	25	-	12	-	-
Interest	288	322	374	373	395	Issue/repay debt					
Exceptional items	-	-	-	-	-	Interest Paid	(299)	(323)	(377)	(373)	(395)
<b>Profit before tax</b>	<b>849</b>	<b>1,301</b>	<b>1,542</b>	<b>1,914</b>	<b>2,383</b>	Inc./(Dec.) Loan Funds	670	184	307	500	-
Tax	191	287	333	478	596	Dividends paid	(105)	(163)	(182)	(214)	(214)
Profit share in JV & asso.	155	224	251	292	336	Other finan.cashflow	25	-	-	-	-
<b>PAT</b>	<b>813</b>	<b>1,238</b>	<b>1,453</b>	<b>1,727</b>	<b>2,123</b>	<b>Cashflow from finan.</b>	<b>316</b>	<b>(303)</b>	<b>(241)</b>	<b>(87)</b>	<b>(608)</b>
EO Items	-	-	-	-	-	Chg cash & cash eq	<b>73</b>	<b>(48)</b>	<b>13</b>	<b>216</b>	<b>201</b>
<b>Net Profit</b>	<b>813</b>	<b>1,238</b>	<b>1,453</b>	<b>1,727</b>	<b>2,123</b>	<b>Open cash &amp; cash eq</b>	<b>117</b>	<b>190</b>	<b>142</b>	<b>155</b>	<b>371</b>
Share O/s mn	76.6	76.6	76.7	76.7	76.7	<b>Cls cash &amp; cash eq</b>	<b>190</b>	<b>142</b>	<b>155</b>	<b>371</b>	<b>572</b>
<b>EPS Rs</b>	<b>10.6</b>	<b>16.2</b>	<b>19.0</b>	<b>22.5</b>	<b>27.7</b>	<b>Free cashflow to firm</b>	<b>(150)</b>	<b>291</b>	<b>571</b>	<b>303</b>	<b>809</b>

**Balance Sheet**

Y/E Mar	FY17	FY18	FY19	FY20E	FY21E
<b>SOURCES OF FUNDS :</b>					
Share Capital	153	153	153	153	153
Reserves	6,338	7,465	8,766	10,280	12,190
<b>T. Shareholders Funds</b>	<b>6,491</b>	<b>7,618</b>	<b>8,920</b>	<b>10,433</b>	<b>12,343</b>
Minority interest	43	47	52	52	52
<b>Non-Current Liab.</b>					
Long term borrowings	3,795	3,953	4,142	4,642	4,642
Deferred tax liability	395	445	390	390	390
<b>Current Liab. &amp; Prov.</b>	<b>1,595</b>	<b>1,915</b>	<b>2,656</b>	<b>2,961</b>	<b>3,388</b>
<b>Total Equity &amp; Liab.</b>	<b>12,319</b>	<b>13,977</b>	<b>16,160</b>	<b>18,478</b>	<b>20,815</b>
<b>APPLICATION OF FUNDS :</b>					
<b>Non Current Assets</b>					
Fixed Assets	5,894	6,258	7,268	8,206	8,762
Capital work in progress	-	563	40	40	40
Goodwill	-	-	-	-	-
Noncurrent investment	899	1,044	1,168	1,460	1,796
<b>Current Assets</b>					
Inventories	25	33	53	27	31
Sundry debtors	3,570	4,249	5,151	5,770	6,625
Cash and bank	190	142	155	371	572
Short loans & advances	1,741	1,689	2,324	2,603	2,989
<b>Total Assets</b>	<b>12,319</b>	<b>13,977</b>	<b>16,160</b>	<b>18,478</b>	<b>20,815</b>
Net working capital	3,741	4,055	4,872	5,440	6,257
Total Gross Debt	3,795	3,953	4,142	4,642	4,642
Total Net debt	3,606	3,811	3,987	4,271	4,070
Total capital employed	10,724	12,062	13,504	15,518	17,428

**Key Ratios**

Y/E (Mar)	FY17	FY18	FY19	FY20E	FY21E
<b>PER SHARE</b>					
EPS Rs	10.6	16.2	19.0	22.5	27.7
CEPS Rs	18.3	25.1	29.1	33.8	40.0
Book Value Rs	84.7	99.4	116.4	136.1	161.0
<b>VALUATION</b>					
EV / Net Sales	1.3	1.0	0.9	0.8	0.7
EV / EBITDA	15.1	11.5	9.9	8.5	7.1
P / E Ratio	25.5	16.7	14.2	12.0	9.7
P / BV Ratio	3.2	2.7	2.3	2.0	1.7
<b>GROWTH YOY%</b>					
Sales Growth	12.5	20.8	17.4	12.0	14.8
EBITDA Growth	25.2	32.4	17.3	17.4	18.4
Net Profit Growth	43.7	52.4	17.3	18.9	22.9
Gross Fixed Asset Growth	10.7	9.8	15.2	13.3	9.8
<b>PROFITABILITY</b>					
EBITDA / Net Sales (%)	8.3	9.1	9.1	9.5	9.8
EBIT / Net sales (%)	5.9	6.9	7.0	7.4	7.8
NPM / Total income (%)	4.2	5.3	5.3	5.6	6.0
ROE (%)	13.3	17.6	17.6	17.9	18.6
ROCE (%)	11.8	14.8	15.6	16.3	17.3
Tax / PBT %	22.5	22.0	21.6	25.0	25.0
<b>TURNOVER</b>					
Debtors Velocity (Days)	67	66	68	68	68
Inventory (Days)	0.6	0.6	0.9	0.4	0.4
Creditors Velocity (Days)					
Current Ratio	3.5	3.2	2.9	3.0	3.0
Quick Ratio	3.4	3.2	2.9	3.0	3.0
<b>LIQUIDITY</b>					
Gross Asset Ratio	1.9	2.1	2.2	2.1	2.2
Total Asset Ratio	1.9	2.1	2.2	2.1	2.2
Net Debt-Equity Ratio	0.6	0.5	0.4	0.4	0.3
Interest Coverage	3.5	4.5	4.6	5.5	6.4
<b>PAYOUT</b>					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	68.4	106.7	119.0	139.3	139.3
Yield %	0.5	0.8	0.9	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>Hold/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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