

Transport Corporation of India

BUY



Asian Markets Securities Pvt. Ltd.

Good show despite challenges

Institutional Research

CMP (Rs)	271
Target (Rs)	370

Nifty: 10,553; Sensex: 35,012

Key Stock Data

BSE Code	532349
NSE Code	TCI
Bloomberg	TRPC IN
Shares O/smn (FV Rs 5)	76.6
Dividend Yield (%)	0.5
Market cap (Rs bn)	20.8
52-week high/low	376/232
3-m daily avg vol.	1,60,246

Rel. Performance

(%)	1m	3m	12m
TCI	2.5	(14.6)	(7.2)
Nifty	1.9	(7.4)	0.6
Sensex	1.6	(7.0)	3.7

Shareholding Pattern

(%)	Mar18	Jun18	Sep18
Promoter	66.1	67.0	66.9
FII	5.0	5.0	1.9
DII	7.6	7.9	7.6
Others	21.4	20.1	23.6

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Transport Corporation of India (TCI) continued its healthy growth momentum especially on revenue front which was slightly better than our estimates. However, EBITDA margin was under pressure due to increase in fuel prices and relatively higher growth in low margin segment. Sales grew by 19.2% y-o-y to Rs 6.2bn which was led by strong growth in trucking and coastal shipping divisions and modest growth in SCM. EBITDA margin was lower by 100bps y-o-y to 8.6% but remained more or less stable on sequential basis. Net Profit increased by 1.3% y-o-y to Rs 259mn. Relatively lower earnings growth was on account of margin compression and higher interest cost. Overall, all segments have performed well and expected to maintain the growth momentum going ahead. However, we expect margin compression will continue in the coming quarters on the back of relatively modest growth expected in SCM division. Maintain 'Buy'

Strong momentum across all divisions

TCI maintained the growth trajectory as it reported a y-o-y growth of 19.2% in revenues to Rs 6.2bn. We believe underline volume growth would be ~20%. All its business vertical reported a growth. Its largest trucking division reported a y-o-y growth of 27% to Rs 2.9bn. 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 10-12%. 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 10-12% 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 36% y-o-y to Rs 788mn 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 ~15%. 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 in the coming quarter.

Modest growth in SCM albeit on a higher base but expecting better H2

SCM division reported a modest growth in 9.1% y-o-y in revenue to Rs 2.9bn. Growth moderation as compared to healthy growth momentum in the last few quarters was on account of higher base, Kerala floods and shift in festive season to Q3.

Going ahead, we expect SCM division will see growth pick up from the current level on the back of good festive demand, new customer additions and overall pick up in industrial activities. 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. Despite generation substantial revenue (3/4th) from automobile sector, SCM division is not so affected 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.

EBITDA margin compressed by 100bps y-o-y to 8.6%

Increased in energy prices and other operating overhead has impacted EBITDA margin by 100bps to 8.6%. Impact of higher energy price is more visible in coastal shipping division which witnessed ~224bps margin contraction. Further, unfavorable sales mix towards low margin trucking business also impacted the EBITDA margin to some extent. Going ahead, we expect some margin recovery in the coming quarters on the back of pass-through of high energy prices to customers and expected softening in oil prices in the coming period.

Net profit remained at more or less similar level of last year to Rs 259mn. Relatively lower earnings growth was on account of margin compression along with higher interest cost during the quarter.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Sales	17,270	19,427	23,461	27,150	31,155
yoy (%)	(28.5)	12.5	20.8	15.7	14.8
EBITDA	1,283	1,607	2,127	2,525	3,053
yoy (%)	(33.6)	25.2	32.4	18.7	20.9
Reported PAT	565	813	1,238	1,505	1,890
yoy (%)	(30.5)	43.7	52.4	21.6	25.6
Equity	152	153	153	153	153
EPS	7.4	10.6	16.2	19.7	24.7

Source: Company, AMSEC Research

Exhibit 2: Key Indicators

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDAM (%)	7.4	8.3	9.1	9.3	9.8
NPM (%)	3.3	4.2	5.3	5.5	6.1
PER (x)	36.9	25.8	17.0	13.9	11.1
P/BV (x)	3.6	3.2	2.8	2.4	2.0
EV/Sales (x)	1.4	1.3	1.1	0.9	0.8
EV/EBITDA (x)	18.6	15.3	11.7	10.0	8.2
RoCE (%)	9.4	11.8	14.8	16.3	17.7
RoE (%)	9.5	13.3	17.6	18.2	19.4

Outlook and Valuation

We expect, TCI to see CAGR of 15% and 24% 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. 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 14x FY19E and 11x FY20E consolidated earnings. We maintain 'Buy' rating on TCI with a price target of Rs 370, based on 15x FY20E earnings.

Exhibit 3: 2QFY19 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	y-o-y change	q-o-q change	1HFY19	1HFY18	y-o-y change
Income from operations	5,203	5,553	6,053	5,815	6,203	19.2%	6.7%	12,018	10,172	18.1%
Less: Expenditures										
Operating cost	4,175	4,501	4,833	4,715	5,066	21.3%	7.5%	9,781	8,156	19.9%
Staff cost	296	295	330	333	347	17.1%	4.0%	680	583	16.7%
Other operating & admin	232	231	285	254	259	11.7%	1.7%	513	481	6.6%
EBITDA	501	526	605	513	531	6.1%	3.5%	1,044	952	9.7%
EBITDA Margin	9.6%	9.5%	10.0%	8.8%	8.6%	-106	-26	17.4%	18.7%	-133
Other Income	71	72	93	82	81	14.2%	-1.5%	164	81	103.2%
Depreciation	175	176	162	168	191	8.9%	13.4%	359	335	7.0%
EBIT	397	422	535	428	422	6.3%	-1.4%	849	698	21.7%
Interest	74	79	68	70	93	25.8%	32.3%	163	152	7.2%
Profit Before Tax	323	343	467	357	329	1.9%	-8.0%	686	545	25.8%
Tax	67	64	101	75	70	4.0%	-7.0%	145	114	27.7%
Profit after Tax	255	279	367	282	259	1.3%	-8.3%	541	432	25.2%
Extraordinary items	-	-	(40)			NA	NA	-	-	NA
Net Profit	255	279	327	282	259	1.3%	-8.3%	541	432	25.2%
EPS (Rs)	3.34	3.65	4.27	3.68	3.38	1.3%	-8.3%	7.06	5.6	25.2%
Operating Matrix						bps	bps			bps
Operating cost/Sales	80.2%	81.0%	79.9%	81.1%	81.7%	144	61	81.4%	80.2%	121
Staff cost/Sales	5.7%	5.3%	5.5%	5.7%	5.6%	(10)	(14)	5.7%	5.7%	(7)
Others/Sales	4.5%	4.2%	4.7%	4.4%	4.2%	(28)	(20)	4.3%	4.7%	(46)
EBITDA Margin	9.6%	9.5%	10.0%	8.8%	8.6%	(106)	(26)	8.7%	9.4%	(67)
Net Margin	4.9%	5.0%	5.4%	4.8%	4.2%	(74)	(68)	4.5%	4.2%	26
ETR	20.9%	18.6%	21.5%	21.1%	21.3%	44	22	21.2%	20.9%	32

Source: Company, AMSEC Research,

Exhibit 4: 2QFY19 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	y-o-y change	q-o-q change	1HFY19	1HFY18	y-o-y change
Revenue										
Transport	2,305	2,586	2,984	2,783	2,932	27.2%	5.4%	5,715	4,741	20.5%
SCM	2,339	2,364	2,439	2,375	2,552	9.1%	7.4%	4,927	4,323	14.0%
Coastal	579	661	744	715	788	36.2%	10.3%	1,503	1,160	29.6%
Wind Power	32	7	6	23	33	5.7%	47.1%	56	56	0.7%
Intersegments/ Others	(51)	(64)	(120)	(80)	(103)	100.6%	28.2%	(183)	(107)	71.2%
Total	5,203	5,553	6,053	5,815	6,203	19.2%	6.7%	12,018	10,172	18.1%
EBIT										
Transport	70.5	83.3	99.8	69.5	82.1	16.5%	18.1%	151.6	119.4	27.0%
SCM	157.0	140.5	190.0	162.7	184.1	17.3%	13.2%	346.8	274.6	26.3%
Coastal	98.3	145.0	229.1	136.4	116.2	18.2%	-14.8%	252.6	217.2	16.3%
Wind Power	23.4	(2.1)	(1.3)	14.1	24.6	5.1%	74.5%	38.7	38.5	0.5%
Total	349.2	366.7	517.6	382.7	407.0	16.6%	6.3%	789.7	649.7	21.5%
EBIT Margins						bps	bps			
Transport	3.1%	3.2%	3.3%	2.5%	2.8%	(26)	30.3	2.7%	2.5%	13.4
SCM	6.7%	5.9%	7.8%	6.8%	7.2%	50.2	36.4	7.0%	6.4%	68.6
Coastal	17.0%	22.0%	30.8%	19.1%	14.7%	(223.9)	(433.8)	16.8%	18.7%	(192.9)
Wind Power	74.1%	-29.6%	-23.6%	62.1%	73.7%	(39.8)	1,153.8	69.0%	69.1%	(13.6)
Total	6.7%	6.6%	8.6%	6.6%	6.6%	(14.9)	(1.9)	6.6%	6.4%	18.4

Source: Company, AMSEC Research

Financials (Consolidated)

(Rs mn)

Profit and Loss Account						Cash Flow Statement					
Y/E (Mar)	FY16	FY17	FY18	FY19E	FY20E	Y/E (Mar)	FY16	FY17	FY18	FY19E	FY20E
Operating Income	17,270	19,427	23,461	27,150	31,155	PBT	601	1,004	1,525	1,672	2,136
Other operating income	-	-	-	-	-	Non-cash adjustments	885	869	1,005	1,097	1,198
Operating expenses	14,034	15,821	19,068	21,937	25,017	Chg in working capital	637	(637)	(342)	(629)	(705)
Staff expenses	980	1,068	1,245	1,493	1,714	Tax & Interest Paid	(318)	(250)	(368)	(418)	(534)
Selling, admin and other expenses	974	931	1,021	1,195	1,371	Cashflow from oper.	1,766	988	1,801	1,722	2,095
EBITDA	1,283	1,607	2,127	2,525	3,053	Capital expenditure	(1,740)	(1,138)	(1,511)	(1,500)	(1,500)
Depreciation	521	592	687	740	819	Chg in investments	-	(16)	(8)	-	-
Operating profit	762	1,015	1,441	1,785	2,234	Other invest. cashflow	802	(78)	(27)	-	-
Other income	78	122	182	244	280	Cashflow from invest	(938)	(1,231)	(1,546)	(1,500)	(1,500)
EBIT	840	1,137	1,623	2,030	2,514	Issue of equity	36	25	-	-	-
Interest	239	288	322	357	378	Issue/repay debt	-	-	-	-	-
Exceptional items	-	-	-	-	-	Interest Paid	(295)	(299)	(323)	(357)	(378)
Profit before tax	601	849	1,301	1,672	2,136	Inc./(Dec.) Loan Funds	766	670	184	500	-
Tax	154	191	287	418	534	Dividends paid	(182)	(105)	(163)	(214)	(214)
Share in Profit from JV & associates	119	155	224	251	289	Other finan.cashflow	(1,457)	25	-	-	-
PAT	565	813	1,238	1,505	1,890	Cashflow from finan.	(1,133)	316	(303)	(71)	(592)
EO Items	-	-	-	-	-	Chg cash & cash eq	(304)	73	(48)	151	3
Net Profit	565	813	1,238	1,505	1,890	Open cash & cash eq	421	117	190	142	294
Share O/s mn	76.1	76.6	76.6	76.6	76.6	Clsq cash & cash eq	117	190	142	294	297
EPS Rs	7.4	10.6	16.2	19.7	24.7	Free cashflow to firm	27	(150)	291	222	595

Balance Sheet

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS :					
Share Capital	152	153	153	153	153
Reserves	5,618	6,338	7,465	8,756	10,433
T. Shareholders Funds	5,770	6,491	7,618	8,910	10,587
Minority interest	39	43	47	47	47
Non-Current Liab.					
Long term borrowings	3,146	3,795	3,953	4,453	4,453
Deferred tax liability	323	395	445	445	445
Current Liab. & Prov.	1,336	1,595	1,915	2,206	2,489
Total Equity & Liab.	10,614	12,319	13,977	16,065	18,054
APPLICATION OF FUNDS :					
Non Current Assets					
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
Current Assets					
Inventories	18	25	33	24	27
Sundry debtors	3,253	3,570	4,249	4,916	5,642
Cash and bank	117	190	142	294	297
Short loans and advances	1,000	1,741	1,689	1,954	2,242
Total Assets	10,614	12,319	13,977	16,065	18,054
Net working capital	2,935	3,741	4,055	4,684	5,389
Total Gross Debt	3,146	3,795	3,953	4,453	4,453
Total Net debt	3,029	3,606	3,811	4,159	4,156
Total capital employed	9,278	10,724	12,062	13,854	15,531

Key Ratios

Y/E (Mar)	FY16	FY17	FY18	FY19E	FY20E
PER SHARE					
EPS Rs	7.4	10.6	16.2	19.7	24.7
CEPS Rs	14.3	18.3	25.1	29.3	35.4
Book Value Rs	75.9	84.7	99.4	116.3	138.2
VALUATION					
EV / Net Sales	1.4	1.3	1.1	0.9	0.8
EV / EBITDA	18.6	15.3	11.7	10.0	8.2
P / E Ratio	36.9	25.8	17.0	13.9	11.1
P / BV Ratio	3.6	3.2	2.8	2.4	2.0
GROWTH YOY%					
Sales Growth	-28.5	12.5	20.8	15.7	14.8
EBITDA Growth	-33.6	25.2	32.4	18.7	20.9
Net Profit Growth	-30.5	43.7	52.4	21.6	25.6
Gross Fixed Asset Growth	9.4	10.7	9.8	12.7	11.3
PROFITABILITY					
Gross Profit/ Net sales (%)					
EBITDA / Net Sales (%)	7.4	8.3	9.1	9.3	9.8
EBIT / Net sales (%)	4.9	5.9	6.9	7.5	8.1
NPM / Total income (%)	3.3	4.2	5.3	5.5	6.1
ROE (%)	9.5	13.3	17.6	18.2	19.4
ROCE (%)	9.4	11.8	14.8	16.3	17.7
Tax / PBT %	25.6	22.5	22.0	25.0	25.0
TURNOVER					
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	3.2	3.2
LIQUIDITY					
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	5.0	5.9
PAYOUT					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	119.8	68.4	106.7	139.4	139.4
Yield %	0.9	0.5	0.8	1.0	1.0

Source: Company, AMSEC Research;

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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