

## Transport Corporation of India

Accumulate



Asian Markets Securities Pvt. Ltd.

Growth momentum continues...

### Institutional Research

<b>CMP (Rs)</b>	<b>290</b>
<b>Target (Rs)</b>	<b>353</b>

Nifty: 10,452; Sensex: 33,729

### Key Stock Data

BSE Code	532349
NSE Code	TCI
Bloomberg	TRPC IN
Shares O/smn (FV Rs 5)	76.6
Dividend Yield (%)	0.3
Market cap (Rsbn)	22.3
52-week high/low	350 / 144
3-m daily avg vol.	74,146

### Rel. Performance

(%)	1m	3m	12m
TCI	8.1	(2.2)	58.7
Nifty	4.7	3.8	23.9
Sensex	6.0	4.3	23.7

### Shareholding Pattern

(%)	Mar17	Jun17	Sep17
Promoter	66.1	66.1	66.1
FII	4.9	5.0	2.3
DII	6.0	6.2	6.1
Others	23.1	22.7	25.5

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Transport Corporation of India's (TCI) Q2FY18 result was better than our estimates both on revenue and earnings front. It reported a y-o-y revenue growth of 15.5% to Rs 5.2bn which was supported by strong growth in SCM and coastal shipping divisions. EBITDA margin remained flat on y-o-y basis. PAT witnessed a y-o-y growth of 29.5% to Rs 255mn. Relatively higher growth in PAT was on account of higher other income and lower interest outlay. Maintain 'Accumulate'.

### Strong momentum in across all divisions

TCI maintained the growth trajectory as it reported a y-o-y growth of 15.5% in revenues to Rs 5.2bn. We believe underline volume growth would be in low double digit. All its business vertical reported a growth. Its largest trucking division reported a y-o-y growth of 4% to Rs 2.3bn. Relatively a lower growth in trucking division was on account of pre booking of goods movement in Q1FY18 (pre GST rollout) which impacted the growth by 2-3% in Q2FY18. Adjusting for the same, the growth in freight division would have been 6-7%. Going ahead we believe the growth in trucking division will be around at 7-8%. Though there are enough growth opportunities for transport division but the management doesn't not want chase the growth beyond the 7-8% 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 performed well on the back of recent vessel addition on the west coast and reported a y-o-y growth of 53% to Rs 579mn. The new ship addition expected to contribute revenue of ~Rs 110mn.

### New contracts in non-auto segments driving growth for SCM

SCM division maintained the growth trajectory by recording a y-o-y growth of 20.5%. The growth traction in SCM was supported by strong growth in non-auto segments on the back of new contracts and as a result, revenues from non-auto SCM grew by ~30% y-o-y. Though, the auto segment continued to dominate SCM revenues by contributing ~2/3<sup>rd</sup> of its total sales and ongoing improvement in automobile sector also supported the growth in SCM division. Auto SCM revenue grew by ~16% y-o-y. Post GST rollout, SCM division is getting lot of business enquires which will maintain the growth momentum in SCM. Going ahead with the implementation of GST along with ongoing growth in automobile sector and expected revival in manufacturing sector, SCM will continue to see healthy growth traction.

### EBITDA margin remained flat on y-o-y basis

EBITDA was higher by 15.7% to Rs 500.5mn. Despite better growth traction in SCM and coastal shipping divisions, EBITDA margin remained flat on y-o-y basis to 9.6% mainly on account of sharp reduction (~800 bps y-o-y) in margin of coastal shipping division. Certain change in custom rates post GST implementation and diesel price increase contributed in margin contraction of coastal shipping division.

Going ahead, we believe blended EBITDA margin will see structural improvement up to low double digit on the back of structural shift in revenue mix towards better margin segments. However, over the medium period we may see some margin contraction in the coming quarters as dry docking in the coastal shipping division is expected in H2FY18. PAT was up by 29.5% to Rs 255.4mn. Relatively higher earnings growth was on account of higher other income (+280% y-o-y) along with lower interest outlay. Higher other income was on account of dividend income to the tune of Rs 40mn.

### Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Sales	17270	19427	21974	24918	28067
yoy (%)	-28.5	12.5	13.1	13.4	12.6
EBITDA	1283	1607	1928	2368	2815
yoy (%)	-33.6	25.2	20.0	22.8	18.9
PAT	565	813	999	1331	1691
yoy (%)	-30.5	43.7	23.0	33.3	27.0
Equity	152	153	153	153	153
EPS (Rs)	7	11	13	17	22

Source: Company, AMSEC Research

### Exhibit 2: Key Indicators

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDAM (%)	7.4	8.3	8.8	9.5	10.0
NPM (%)	3.3	4.2	4.5	5.3	6.0
PER (x)	39.0	27.3	22.2	16.7	13.1
P/BV (x)	3.8	3.4	3.1	2.6	2.3
EV/Sales (x)	1.5	1.3	1.2	1.1	0.9
EV/EBITDA (x)	19.5	16.1	13.6	11.2	9.3
RoACE (%)	9.4	11.8	12.7	14.7	16.5
RoANW (%)	9.5	13.3	14.5	17.0	18.5

### Planning to spend Rs 1.2-1.3bn on Capex in FY18

TCI is planning to spend Rs 1.2-1.3bn in FY18. Bulk of this capex will be towards development of new hub center & small warehouse development, fleet additions, material handling equipments and IT system development. To fund this capex, TCI will take debt of ~Rs 650mn debt and the balance funding will be from internal accruals.

### Outlook and Valuation

TCI will see CAGR of 13% and 28% in revenues and earnings respectively over FY17-20E. 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 17x FY19E and 13x FY20E consolidated earnings. We maintain our 'Accumulate' rating on TCI with a price target of Rs 353, based on 15x FY20E earnings.

### Exhibit 3: 2QFY18 Quarterly Financials (Standalone)

Particulars (Rs. mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Y-o-Y change	Q-o-Q change	1HFY18	1HFY17	Y-o-Y change
<b>Income from operations</b>	<b>4,504.1</b>	<b>4,467.4</b>	<b>4,816.3</b>	<b>4,968.7</b>	<b>5,203.3</b>	<b>15.5%</b>	<b>4.7%</b>	<b>10,172.0</b>	<b>8,778.3</b>	<b>15.9%</b>
Less: Expenditures										
Operating cost	3,589.5	3,623.3	3,903.0	3,980.8	4,175.2	16.3%	4.9%	8,156.0	7,014.4	16.3%
Staff cost	250.7	252.5	279.7	286.6	296.0	18.1%	3.3%	582.6	502.8	15.9%
Other operating & admin	231.4	215.9	240.3	249.5	231.6	0.1%	-7.2%	481.1	448.0	7.4%
<b>EBITDA</b>	<b>432.5</b>	<b>375.7</b>	<b>393.3</b>	<b>451.8</b>	<b>500.5</b>	<b>15.7%</b>	<b>10.8%</b>	<b>952.3</b>	<b>813.1</b>	<b>17.1%</b>
EBITDA Margin	9.6%	8.4%	8.2%	9.1%	9.6%	+1BPS	+53BPS	9.4%	9.3%	+40BPS
Other Income	18.7	51.7	64.1	9.4	71.1	280.2%	656.4%	80.5	41.9	92.1%
Depreciation	137.0	152.3	148.3	160.0	175.0	27.7%	9.4%	335.0	277.5	20.7%
<b>EBIT</b>	<b>314.2</b>	<b>275.1</b>	<b>309.1</b>	<b>301.2</b>	<b>396.6</b>	<b>26.2%</b>	<b>31.7%</b>	<b>697.8</b>	<b>577.5</b>	<b>20.8%</b>
Interest	68.3	67.8	63.5	78.4	73.9	8.2%	-5.7%	152.3	142.8	6.7%
Profit Before Tax	245.9	207.3	245.6	222.8	322.7	31.2%	44.8%	545.5	434.7	25.5%
Tax	48.7	38.2	60.2	46.5	67.3	38.2%	44.7%	113.8	86.4	31.7%
<b>Profit after Tax</b>	<b>197.2</b>	<b>169.1</b>	<b>185.4</b>	<b>176.3</b>	<b>255.4</b>	<b>29.5%</b>	<b>44.9%</b>	<b>431.7</b>	<b>348.3</b>	<b>23.9%</b>
Extraordinary items	-	-	-	-	-	NA	NA	-	0.4	-100.0%
<b>Net Profit</b>	<b>197.2</b>	<b>169.1</b>	<b>185.4</b>	<b>176.3</b>	<b>255.4</b>	<b>29.5%</b>	<b>44.9%</b>	<b>431.7</b>	<b>348.7</b>	<b>23.8%</b>
EPS	2.69	2.31	2.53	2.41	3.49	29.5%	44.9%	5.89	4.8	23.8%
<b>Operating Matrix</b>						bps	bps			bps
Operating cost/Sales	79.7%	81.1%	81.0%	80.1%	80.2%	55	12	80.2%	79.9%	27
Staff cost/Sales	5.6%	5.7%	5.8%	5.8%	5.7%	12	(8)	5.7%	5.7%	(0)
Others/Sales	5.1%	4.8%	5.0%	5.0%	4.5%	(69)	(57)	4.7%	5.1%	(37)
EBITDA Margin	9.6%	8.4%	8.2%	9.1%	9.6%	2	53	9.4%	9.3%	10
Net Margin	4.4%	3.8%	3.8%	3.5%	4.9%	53	136	4.2%	4.0%	27
ETR	19.8%	18.4%	24.5%	20.9%	20.9%	105	(2)	20.9%	19.9%	99

Source: Company, AMSEC Research,

### Exhibit 4: 1QFY18 Segmental Highlights (Standalone)

Particulars (Rs. mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Y-o-Y change	Q-o-Q change	1HFY18	1HFY17	Y-o-Y change
<b>Segments Revenue</b>										
Transport	2,214.3	2,236.8	2,590.6	2,435.9	2,305.1	4.1%	-5.4%	4,741.0	4,395.7	7.9%
SCM	1,941.3	1,875.8	1,836.4	1,983.9	2,339.0	20.5%	17.9%	4,322.9	3,662.2	18.0%
Coastal shipping	378.8	397.9	462.3	580.6	579.0	52.9%	-0.3%	1,159.6	779.1	48.8%
Wind power	31.3	9.2	10.5	24.1	31.6	1.0%	31.1%	55.7	54.1	3.0%
Intersegments/ Others	(61.6)	(52.3)	(83.5)	(55.8)	(51.4)	-16.6%	-7.9%	(107.2)	(112.8)	-5.0%
<b>Total</b>	<b>4,504.1</b>	<b>4,467.4</b>	<b>4,816.3</b>	<b>4,968.7</b>	<b>5,203.3</b>	<b>15.5%</b>	<b>4.7%</b>	<b>10,172.0</b>	<b>8,778.3</b>	<b>15.9%</b>
<b>EBIT</b>										
Transport	66.5	47.0	50.3	48.9	70.5	6.0%	44.2%	119.4	115.4	3.5%
SCM	118.6	98.4	115.0	117.6	157.0	32.4%	33.5%	274.6	233.9	17.4%
Coastal shipping	96.8	92.2	122.8	118.9	98.3	1.5%	-17.3%	217.2	166.8	30.2%
Wind power	24.2	0.1	1.1	15.1	23.4	-3.3%	55.0%	38.5	38.2	0.8%
<b>Total</b>	<b>306.1</b>	<b>237.7</b>	<b>289.2</b>	<b>300.5</b>	<b>349.2</b>	<b>14.1%</b>	<b>16.2%</b>	<b>649.7</b>	<b>554.3</b>	<b>17.2%</b>
<b>EBIT Margins</b>						bps	bps			
Transport	3.0%	2.1%	1.9%	2.0%	3.1%	6	105.1	2.5%	2.6%	(10.7)
SCM	6.1%	5.2%	6.3%	5.9%	6.7%	60.3	78.5	6.4%	6.4%	(3.5)
Coastal shipping	25.6%	23.2%	26.6%	20.5%	17.0%	(857.7)	(350.1)	18.7%	21.4%	(267.9)
Wind power	77.3%	1.1%	10.5%	62.7%	74.1%	(326.6)	1,139.5	69.1%	70.6%	(149.0)
<b>Total</b>	<b>6.8%</b>	<b>5.3%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.7%</b>	<b>(8.5)</b>	<b>66.3</b>	<b>6.4%</b>	<b>6.3%</b>	<b>7.3</b>

Source: Company, AMSEC Research

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

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
<b>Operating Income</b>	<b>17,270</b>	<b>19,427</b>	<b>21,974</b>	<b>24,918</b>	<b>28,067</b>
Less:					
Operating expenses	14,034	15,821	17,798	20,058	22,445
Staff expenses	980	1,068	1,209	1,370	1,544
Selling, admin and other exp.	974	931	1,039	1,121	1,263
<b>EBITDA</b>	<b>1,283</b>	<b>1,607</b>	<b>1,928</b>	<b>2,368</b>	<b>2,815</b>
Depreciation	521	592	649	704	744
<b>Operating profit</b>	<b>762</b>	<b>1,015</b>	<b>1,279</b>	<b>1,663</b>	<b>2,071</b>
Other income	78	122	110	125	140
<b>EBIT</b>	<b>840</b>	<b>1,137</b>	<b>1,389</b>	<b>1,788</b>	<b>2,211</b>
Interest	239	288	303	322	322
Exceptional items	-	-	-	-	-
<b>Profit before tax</b>	<b>601</b>	<b>849</b>	<b>1,085</b>	<b>1,466</b>	<b>1,889</b>
Tax	154	191	271	366	472
Share in profit of assoc. cos	-	-	-	-	-
Minority interest	119	155	185	232	274
<b>Net profit</b>	<b>565</b>	<b>813</b>	<b>999</b>	<b>1,331</b>	<b>1,691</b>
Share O/s mn	76	77	77	77	77
EPS Rs	7	11	13	17	22

**Balance Sheet**

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS :</b>					
Share Capital	152	153	153	153	153
Reserves	5618	6338	7124	8242	9719
<b>Total Shareholders Funds</b>	<b>5770</b>	<b>6491</b>	<b>7277</b>	<b>8395</b>	<b>9872</b>
Minority interest	39	43	43	43	43
<b>Non-Current Liabilities</b>					
Long term borrowings	3146	3795	4295	4295	4295
Deferred tax liability	323	395	395	395	395
Other long term liabilities					
Long-term provisions					
<b>Current Liabilities &amp; Provisions</b>	<b>1336</b>	<b>1595</b>	<b>1790</b>	<b>2018</b>	<b>2260</b>
<b>Total Equity &amp; Liabilities</b>	<b>10614</b>	<b>12319</b>	<b>13800</b>	<b>15146</b>	<b>16865</b>
<b>APPLICATION OF FUNDS :</b>					
<b>Non Current Assets</b>					
Fixed Assets	5447	5894	6445	6940	7196
Noncurrent investment	779	899	1084	1316	1590
<b>Current Assets</b>					
Inventories	18	25	20	22	25
Sundry debtors	3253	3570	4038	4579	5158
Cash and bank	117	190	244	56	381
Short loans and advances	1000	1741	1969	2233	2515
<b>Total Assets</b>	<b>10614</b>	<b>12319</b>	<b>13800</b>	<b>15146</b>	<b>16865</b>

**Cash Flow Statement**

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
PBT	601	849	1085	1466	1889
Non-cash adjustments	885	880	953	1027	1066
Chg. in working capital	637	-806	-496	-579	-622
Tax & Interest Paid	-318	-191	-271	-366	-472
<b>Cashflow from oper.</b>	<b>1766</b>	<b>731</b>	<b>1271</b>	<b>1547</b>	<b>1861</b>
Capital expenditure	-1740	-1039	-1200	-1200	-1000
Change in investments	0	-120	-	-	-
Other inv.cashflow	802	-	-	-	-
<b>Cashflow from investing</b>	<b>-938</b>	<b>-1159</b>	<b>-1200</b>	<b>-1200</b>	<b>-1000</b>
Issue of equity	36	1	0	0	0
Interest Paid	-295	-288	-303	-322	-322
Inc./(Dec.) Loan Funds	766	649	500	0	0
Dividends paid	-182	-214	-214	-214	-214
Other financing cashflow	-1457	352	-	-	-
<b>Cashflow from fin.</b>	<b>-1133</b>	<b>501</b>	<b>-17</b>	<b>-536</b>	<b>-536</b>
<b>Chg. cash &amp; cash eq</b>	<b>-304</b>	<b>73</b>	<b>54</b>	<b>-188</b>	<b>326</b>
<b>Open. cash &amp; cash eq</b>	<b>421</b>	<b>117</b>	<b>190</b>	<b>244</b>	<b>56</b>
<b>Clsq cash &amp; cash eq</b>	<b>117</b>	<b>190</b>	<b>244</b>	<b>56</b>	<b>381</b>
<b>Free cash flow to firm</b>	<b>27</b>	<b>-308</b>	<b>71</b>	<b>347</b>	<b>861</b>

**Key Ratios**

Y/E (Mar)	FY16	FY17	FY18E	FY19E	FY20E
<b>PER SHARE</b>					
EPS Rs	7.4	10.6	13.0	17.4	22.1
CEPS Rs	14.3	18.3	21.5	26.6	31.8
Book Value Rs	75.9	84.7	95.0	109.6	128.9
<b>VALUATION</b>					
EV / Net Sales	1.5	1.3	1.2	1.1	0.9
EV / EBITDA	19.5	16.1	13.6	11.2	9.3
P / E Ratio	39.0	27.3	22.2	16.7	13.1
P / BV Ratio	3.8	3.4	3.1	2.6	2.3
<b>GROWTH YOY%</b>					
Sales Growth	-28.5	12.5	13.1	13.4	12.6
EBITDA Growth	-33.6	25.2	20.0	22.8	18.9
Net Profit Growth	-30.5	43.7	23.0	33.3	27.0
Gross Fixed Asset Growth	9.4	10.7	11.2	10.1	7.6
<b>PROFITABILITY</b>					
EBITDA / Net Sales (%)	7.4	8.3	8.8	9.5	10.0
EBIT / Net sales (%)	4.9	5.9	6.3	7.2	7.9
NPM / Total income (%)	3.3	4.2	4.5	5.3	6.0
ROE (%)	9.5	13.3	14.5	17.0	18.5
ROCE (%)	9.4	11.8	12.7	14.7	16.5
Tax / PBT %	25.6	22.5	25.0	25.0	25.0
<b>TURNOVER</b>					
Debtors Velocity (Days)	68.8	67.1	67.1	67.1	67.1
Inventory (Days)	3.3	4.6	3.2	3.2	3.2
Current Ratio	3.3	3.5	3.5	3.4	3.6
Quick Ratio	3.3	3.4	3.5	3.4	3.6
<b>LIQUIDITY</b>					
Gross Asset Ratio	1.9	1.9	1.9	2.0	2.1
Total Asset Ratio	1.9	1.9	1.9	2.0	2.0
Net Debt-Equity Ratio	0.5	0.6	0.6	0.5	0.4
Interest Coverage	3.2	3.5	4.2	5.2	6.4
<b>PAYOUT</b>					
Payout %	20.0	20.0	20.0	20.0	20.0
Dividend %	119.8	139.4	139.4	139.4	139.4
Yield %	0.8	1.0	1.0	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>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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5. Investment Banking relationship with company covered:	None	None

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