

## Transport Corporation of India

### Performance Highlights

#### Quarterly Data (Standalone)

(₹ cr)	3QFY16	3QFY15	% yoy	2QFY15	% qoq
Revenue	551	555	(0.6)	556	(0.8)
EBITDA	44	42	5.0	44	0.8
Margin (%)	8.0	7.6	43	7.9	13
Reported PAT	19	17	10.7	23	(18.8)

Source: Company, Angel Research

Transport Corporation of India Ltd (TCIL)'s top-line & bottom-line for 3QFY2016 came in below our estimates. The top-line has come in flat on a yoy basis, with all business segments posting poor performances, barring the Seaways division. On the operating front, the company showed a slight improvement in margins. Further, lower interest costs and tax rate boosted the overall profitability.

**Muted standalone top-line performance:** TCIL's numbers for the quarter have come in below our estimates. The top-line, at ~₹551cr, is flat on a yoy basis, with all business segments posting poor performances on the revenue front, barring the Seaways divisions, which reported a growth of ~16% yoy to ~₹35cr.

**Slight improvement in operating margin and lower interest costs boost overall PAT:** For the quarter, the company reported an operating profit of ~₹44cr, up ~5% yoy. Further, the company's operating margin expanded by 43bp yoy to 8.0%, primarily on account of decline in operating expenses as a percentage of sales by 207bp yoy. The net profit grew by ~11% yoy to ~₹19cr. The growth however is lower than our estimate, mainly due to flattish sales during the quarter.

**Outlook and valuation:** TCIL benefits from its pan-India scale, which gives it a competitive advantage in the higher-margin segments of the logistics industry; as well as from its asset-light business model which cushions its profitability in cyclical downturns and gives it an attractive ROE profile. The company is well-placed to be a key beneficiary of the anticipated implementation of the GST. However, in the last few quarters, the company has not been able to report good numbers, both on the top-line and bottom-line fronts, due to delay in pick-up in economic activities. **Hence we are maintaining our NEUTRAL rating on the stock.**

#### Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	2,228	2,417	2,460	2,671
% chg	4.5	8.4	1.8	8.6
Net profit	72	81	91	105
% chg	3.0	13.6	12.0	14.9
EBITDA margin (%)	7.6	8.0	8.3	8.5
EPS (₹)	9.5	10.8	12.1	13.9
P/E (x)	25.6	22.5	20.1	17.5
P/BV (x)	3.7	3.0	2.7	2.4
RoE (%)	14.6	13.2	13.3	13.7
RoCE (%)	14.9	14.6	14.3	14.8
EV/Sales (x)	0.9	0.9	0.9	0.8
EV/EBITDA (x)	12.4	11.0	10.3	9.3

Source: Company, Angel Research; Note: CMP as of February 2, 2015

## NEUTRAL

CMP	₹242
Target Price	-

Investment Period	-
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#### Stock Info

Sector	Logistics
Market Cap (₹ cr)	1,847
Net Debt (₹ cr)	286
Beta	1.6
52 Week High / Low	348 / 198
Avg. Daily Volume	27,910
Face Value (₹)	2
BSE Sensex	24,539
Nifty	7,456
Reuters Code	TCIL.BO
Bloomberg Code	TRPC@IN

#### Shareholding Pattern (%)

Promoters	66.5
MF / Banks / Indian FIs	6.5
FII / NRIs / OCBs	2.9
Indian Public / Others	24.1

Abs. (%)	3m	1yr	3yr
Sensex	(7.6)	(15.7)	24.2
TCIL	9.2	(5.3)	250.9

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Standalone quarterly performance**

Y/E March (₹ cr)	3QFY16	3QFY15	% yoy	2QFY15	% qoq	9MFY16	9MFY15	% chg
<b>Net Sales</b>	<b>551</b>	<b>555</b>	<b>(0.64)</b>	<b>556</b>	<b>(0.8)</b>	<b>1,656</b>	<b>1,631</b>	<b>1.5</b>
Operating Expense	434	448	(3.2)	437	(0.7)	1,311	1,321	(0.8)
(% of Sales)	78.7	80.8		78.6		79.2	81.0	
Staff Costs	39	31	25.6	37	6.5	111	92	21.0
(% of Sales)	7.1	5.6		6.6		6.7	5.6	
Other Expense	34	33	1.9	38	(11.1)	105	95	10.3
(% of Sales)	6.2	6.0		6.9		6.3	5.8	
<b>Total Expenditure</b>	<b>507</b>	<b>513</b>	<b>(1.1)</b>	<b>512</b>	<b>(0.9)</b>	<b>1,526</b>	<b>1,508</b>	<b>1.3</b>
<b>Operating Profit</b>	<b>44</b>	<b>42</b>	<b>5.0</b>	<b>44</b>	<b>0.8</b>	<b>129</b>	<b>124</b>	<b>4.6</b>
OPM (%)	8.0	7.6		7.9		7.8	7.6	
Interest	7	9	(23.4)	7	0.1	21	25	
Depreciation	13	12	4.4	13	(1.3)	39	36	6.4
Other Income	(0.1)	1.8	(102.8)	6.2	(100.8)	10	9	15.2
<b>PBT</b>	<b>24</b>	<b>22</b>	<b>8.6</b>	<b>30</b>	<b>(19.1)</b>	<b>80</b>	<b>71</b>	<b>12.4</b>
Ext Income/(Expense)	-	-	-	-	-	-	-	-
<b>PBT (incl. Ext Items)</b>	<b>24</b>	<b>22</b>	<b>8.6</b>	<b>30</b>	<b>(71.5)</b>	<b>80</b>	<b>71</b>	<b>12.4</b>
(% of Sales)	4.4	4.0		5.4		4.8	4.4	
Provision for Taxation	5	5	1.7	7	(20.2)	19	17	13.7
(% of PBT)	22.0	23.5		22.3		23.9	23.6	
Minority Interest	-	-	-	-	-	-	-	-
<b>Recurring PAT</b>	<b>19</b>	<b>17</b>	<b>10.7</b>	<b>23</b>	<b>(18.8)</b>	<b>61</b>	<b>54</b>	<b>12.0</b>
PATM	3.4	3.1		4.2		3.7	3.3	
Exceptional items	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>19</b>	<b>17</b>	<b>10.7</b>	<b>23</b>	<b>(18.8)</b>	<b>61</b>	<b>54</b>	<b>12.0</b>
Equity shares (cr)	7.6	7.6		7.6		7.6	7.6	
<b>FDEPS (₹)</b>	<b>2.5</b>	<b>2.2</b>	<b>10.7</b>	<b>3.1</b>	<b>(18.8)</b>	<b>8.0</b>	<b>7.2</b>	<b>12.0</b>

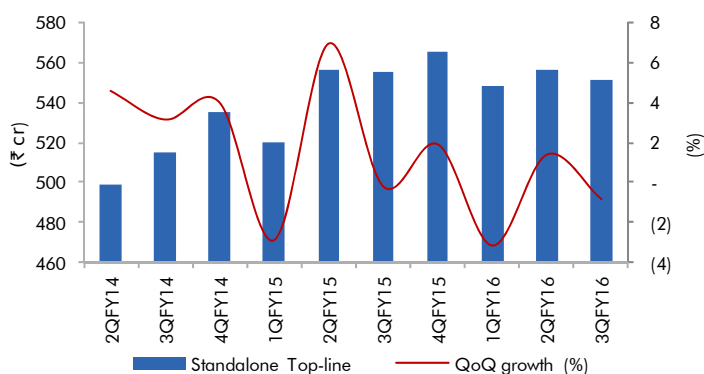
Source: Company, Angel Research

### Muted standalone top-line performance

TCIL's numbers for the quarter have come in below our estimates. The top-line, at ~₹551cr, is flat on a yoy basis, with all business segments posting poor performances on the revenue front, barring the Seaways division, which reported a growth of ~16% yoy to ~₹35cr.

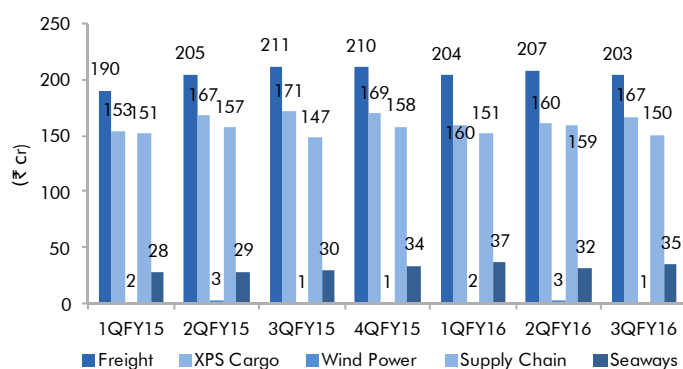
The company's Freight segment reported a de-growth of ~4% yoy while the XPS segment reported a de-growth of ~2% yoy. The Supply Chain Solutions segment reported a subdued ~2% yoy growth due to slowdown in the automobile sector (the sector accounts for ~75% of this segment's business).

**Exhibit 2: Top-line growth trend**



Source: Company, Angel Research

**Exhibit 3: Segment wise revenue trend**

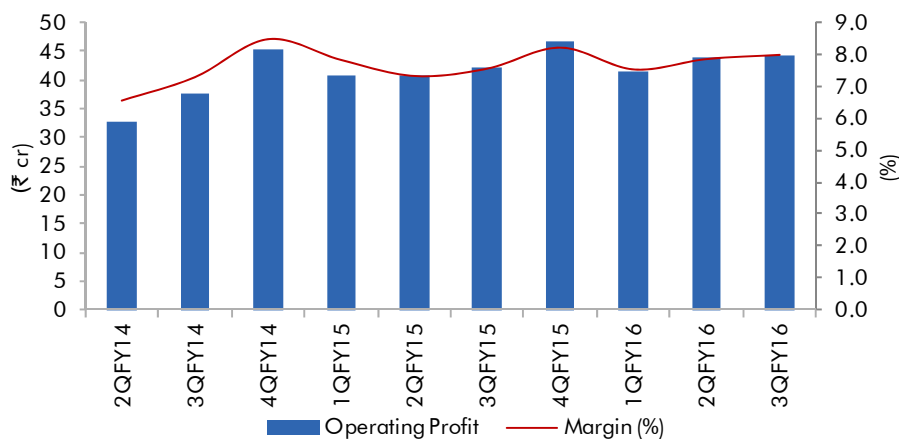


Source: Company, Angel Research

### Operating margin expands due to lower operating expenses

For the quarter, the company reported an operating profit of ~₹44cr, up ~5% yoy. Further, the company's operating margin expanded by 43bp yoy to 8.0%, primarily on account of decline in operating expenses as a percentage of sales by 207bp yoy.

**Exhibit 4: Operating profit and margin trend**

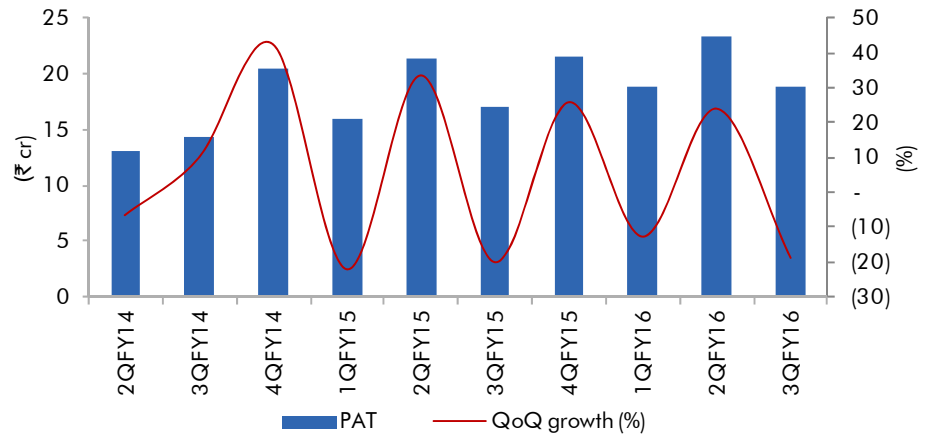


Source: Company, Angel Research

**Slight improvement in operating margin and lower interest costs boost overall PAT**

In 3QFY2016, TCIL posted an earnings growth of ~11% yoy to ~₹19cr, owing to improvement in the operating performance and lower interest costs.

**Exhibit 5: Net Profit trend**



Source: Company, Angel Research

## Investment rationale

### **Top-line to report 5% CAGR over FY2015-17E on economic revival; eventual GST implementation would provide further boost**

We expect TCIL to report a healthy top-line growth of ~5% CAGR over FY2015-17E on the back of revival in the Indian economy. Among TCIL's four business segments, we expect healthy growth in the Express segment. TCIL is also well-placed to garner e-commerce business, as bulkier categories like furniture and white goods see more traction in online sales. We expect the Supply Chain Solutions segment also to report healthy growth owing to recovery in the automobile sector, growth in e-commerce fulfillment hubs, as well as new customer wins due to increasing outsourcing of supply chain in other sectors like FMCG, chemicals, cold storage, etc, especially once GST kicks in. The other two segments, viz Freight and Seaways, are also likely to benefit from an economic revival.

### **Well positioned due to its Asset-light business model**

TCIL operates on an asset-light business model where it owns 20% of the total fleet and leases the remaining 80%. The company has scaled its business model to 7,000 trucks/trailers/reefer vehicles as of today. On the same lines, TCIL has been prudent in managing warehousing space, as a majority of its total 10mn sq ft of warehousing space is on a lease basis. With its focus to invest less on building the asset base, the company has been able to generate healthy return ratios even in the worst phases of business cycles. Given the company's unlevered business model, we are of the view that the long-term growth prospects of the company would not be impacted due to lack of capital availability.

TCIL is one of the few companies in Surface Transportation & Logistics space, which has consistently enjoyed a healthy asset turnover (FY2015 asset turnover ratio at 4.8x) and ROE (FY2015 ROE at 13.3%). Given the strong matrices the company displays, we are confident that TCIL at any phase of the business cycle would be well positioned compared to its peers, which have levered business models and have lower ROEs.

## Outlook and valuation

TCIL benefits from its pan-India scale, which gives it a competitive advantage in higher-margin segments of the logistics industry; as well as from its asset-light business model which cushions its profitability in cyclical downturns and gives it an attractive ROE profile. The company is well-placed to be a key beneficiary of the anticipated implementation of the GST. However, in the last few quarters the company has not been able report good numbers, both on the top-line and bottom-line fronts, due to delay in pick-up in economic activities. Hence we are downgrading our estimates. **Currently, we have a NEUTRAL rating on the stock.**

## Company background

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The company operates in six business divisions: TCI Freight, TCI XPS, TCI Supply Chain Solutions, TCI Seaways, TCI Global and TCI Foundation. TCI Freight offers multimodal transport solutions for cargo of any dimension. TCI XPS is a door-to-door express distribution specialist. TCI Supply Chain Solutions provides supply chain solutions and services right from conceptualization to implementation. TCI Seaways caters to the costal cargo requirements for transporting container and bulk cargo from parts on the east coast of India to Port Blair in the Andaman and Nicobar Islands and further distribution within the islands. TCI Global provides a single window advantage to its customers across all South East Asian countries.

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Total operating income</b>	<b>2,132</b>	<b>2,228</b>	<b>2,417</b>	<b>2,460</b>	<b>2,671</b>
% chg	9.0	4.5	8.4	1.8	8.6
<b>Total Expenditure</b>	<b>1,957</b>	<b>2,058</b>	<b>2,224</b>	<b>2,256</b>	<b>2,444</b>
Personnel Expenses	112	117	130	140	160
Others Expenses	1,845	1,941	2,093	2,116	2,283
<b>EBITDA</b>	<b>175</b>	<b>170</b>	<b>193</b>	<b>204</b>	<b>227</b>
% chg	10.6	(2.7)	13.6	5.7	11.2
(% of Net Sales)	8.2	7.6	8.0	8.3	8.5
Depreciation & Amortisation	46	47	55	57	64
<b>EBIT</b>	<b>128</b>	<b>123</b>	<b>139</b>	<b>147</b>	<b>163</b>
% chg	10.3	(4.0)	12.5	5.9	11.0
(% of Net Sales)	6.0	5.5	5.7	6.0	6.1
Interest & other Charges	34	31	33	30	29
Other Income	6	7	9	12	14
(% of PBT)	6.3	7.2	7.9	9.3	9.5
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>101</b>	<b>99</b>	<b>114</b>	<b>129</b>	<b>148</b>
% chg	18.1	(1.8)	15.2	12.6	14.9
Prior Period & Extra. Exp./ (Inc.)	-	-	0	-	-
<b>PBT (reported)</b>	<b>101</b>	<b>99</b>	<b>114</b>	<b>129</b>	<b>148</b>
Tax	32	27	33	37	43
(% of PBT)	31.2	27.7	28.5	29.0	29.0
<b>PAT (reported)</b>	<b>70</b>	<b>72</b>	<b>82</b>	<b>91</b>	<b>105</b>
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	0	0	0	0	0
<b>PAT after MI (reported)</b>	<b>70</b>	<b>72</b>	<b>81</b>	<b>91</b>	<b>105</b>
<b>ADJ. PAT</b>	<b>70</b>	<b>72</b>	<b>82</b>	<b>91</b>	<b>105</b>
% chg	16.8	3.0	13.6	12.0	14.9
(% of Net Sales)	3.3	3.2	3.4	3.7	3.9
<b>Basic EPS (₹)</b>	<b>9.2</b>	<b>9.5</b>	<b>10.8</b>	<b>12.1</b>	<b>13.9</b>
<b>Fully Diluted EPS (₹)</b>	<b>9.2</b>	<b>9.5</b>	<b>10.8</b>	<b>12.1</b>	<b>13.9</b>
% chg	16.8	3.0	13.6	12.0	14.9

**Consolidated Balance sheet**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	15	15	15	15	15
Reserves & Surplus	422	476	601	672	752
<b>Shareholders Funds</b>	<b>437</b>	<b>491</b>	<b>616</b>	<b>688</b>	<b>767</b>
Minority Interest	1	3	3	3	3
Total Loans	354	336	336	336	336
Deferred Tax Liability	32	33	33	33	33
<b>Total Liabilities</b>	<b>824</b>	<b>863</b>	<b>988</b>	<b>1,059</b>	<b>1,139</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	652	693	823	973	1,123
Less: Acc. Depreciation	234	262	316	374	438
<b>Net Block</b>	<b>418</b>	<b>432</b>	<b>507</b>	<b>600</b>	<b>686</b>
Capital Work-in-Progress	5	18	18	18	18
<b>Investments</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>7</b>
Current Assets	534	543	603	599	614
Inventories	2	2	2	2	2
Sundry Debtors	395	380	420	418	446
Cash	46	43	42	47	56
Loans & Advances	67	65	79	74	40
Other Assets	24	53	60	59	69
Current liabilities	141	138	148	165	186
<b>Net Current Assets</b>	<b>393</b>	<b>405</b>	<b>455</b>	<b>434</b>	<b>428</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>824</b>	<b>863</b>	<b>988</b>	<b>1,059</b>	<b>1,139</b>



**Consolidated Cash flow**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	101	99	114	129	148
Depreciation	46	47	55	57	64
Change in Working Capital	(46)	15	(51)	26	16
Interest / Dividend (Net)	29	25	33	30	29
Direct taxes paid	(26)	(28)	(33)	(37)	(43)
Others	0	0	-	-	-
<b>Cash Flow from Operations</b>	<b>104</b>	<b>158</b>	<b>118</b>	<b>205</b>	<b>214</b>
(Inc.)/ Dec. in Fixed Assets	(55)	(98)	(128)	(150)	(150)
(Inc.)/ Dec. in Investments	(6)	-	1	-	-
<b>Cash Flow from Investing</b>	<b>(61)</b>	<b>(98)</b>	<b>(129)</b>	<b>(150)</b>	<b>(150)</b>
Issue of Equity	1	1	60	-	-
Inc./ (Dec.) in loans	13	(19)	-	-	-
Dividend Paid (Incl. Tax)	(8)	(12)	(16)	(20)	(25)
Interest / Dividend (Net)	(35)	(33)	(33)	(30)	(29)
<b>Cash Flow from Financing</b>	<b>(28)</b>	<b>(63)</b>	<b>10</b>	<b>(50)</b>	<b>(54)</b>
Inc./ (Dec.) in Cash	15	(3)	(1)	5	10
<b>Opening Cash balances</b>	<b>31</b>	<b>46</b>	<b>43</b>	<b>42</b>	<b>47</b>
<b>Closing Cash balances</b>	<b>46</b>	<b>43</b>	<b>42</b>	<b>47</b>	<b>57</b>

**Key Ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	26.3	25.6	22.5	20.1	17.5
P/CEPS	15.8	15.4	13.4	12.3	10.8
P/BV	4.2	3.7	3.0	2.7	2.4
Dividend yield (%)	0.6	0.7	0.9	1.1	1.4
EV/Sales	1.0	0.9	0.9	0.9	0.8
EV/EBITDA	12.2	12.4	11.0	10.3	9.3
EV / Total Assets	2.2	2.1	1.9	1.7	1.6
<b>Per Share Data (₹)</b>					
EPS (Basic)	9.2	9.5	10.8	12.1	13.9
EPS (fully diluted)	9.2	9.5	10.8	12.1	13.9
Cash EPS	15.3	15.7	18.0	19.7	22.4
DPS	1.5	1.8	2.2	2.7	3.3
Book Value	57.8	64.9	81.4	90.9	101.4
<b>Returns (%)</b>					
ROCE	16.2	14.9	14.6	14.3	14.8
Angel ROIC (Pre-tax)	17.4	15.9	15.4	15.1	15.7
ROE	15.9	14.6	13.2	13.3	13.7
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	5.1	5.2	4.8	4.1	3.9
Inventory / Sales (days)	0	0	0	0	0
Receivables (days)	68	62	63	62	61
Payables (days)	15	13	12	12	12
WC cycle (days)	53	50	52	50	49
<b>Solvency ratios (x)</b>					
Net debt to equity	0.7	0.6	0.4	0.5	0.5
Net debt to EBITDA	1.7	1.7	1.3	1.5	1.4
Interest Coverage (EBIT / Int.)	3.8	4.0	4.4	4.8	5.7

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Disclosure of Interest Statement	Transport Corporation of India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15%)
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