Transport Corporation of India

Performance Highlights

Quarterly Data (Standalone)

(₹ cr)	2QFY16	2QFY15	% yoy	1QFY15	% qoq
Revenue	556	556	(0.0)	548	1.4
EBITDA	44	41	7.2	41	5.8
Margin (%)	7.9	7.3	53bp	7.5	33bp
Reported PAT	23	21	9.0	19	24.1

Source: Company, Angel Research

Transport Corporation of India Ltd (TCIL)'s earnings has come in below our estimates, for 2QFY2016. The top-line was flat on a yoy basis, mainly due to poor performance of all business segments, barring Seaways, which reported a growth of ~11% yoy. On the operating front, the company showed a slight improvement in margins. Further, lower interest costs boosted the overall profitability.

Muted standalone top-line performance: TCIL's earnings for the quarter have come in below our estimates. The top-line, at ~₹556cr (our estimate was of ~₹625cr), is flat on a yoy basis, with all business segments posting poor performances, barring Seaways, which reported a growth of ~11% yoy to ₹32cr.

Slight improvement in operating margin and lower interest costs boost overall PAT: For the quarter, the company reported an operating profit of ~₹44cr, up ~7% yoy. Further, the company's operating margin expanded by 53bp yoy to 7.9%, primarily on account of decline in operating expenses as a percentage of sales by 245bp yoy. The net profit grew by ~9% yoy to ~₹23cr (which is below our estimates of ₹25cr), mainly due to lower sales growth during the quarter.

Outlook and valuation: TCIL benefits from its pan-India scale, which gives it 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 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 downgrading our estimates. **Currently, we have a NEUTRAL rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	**2,228**	**2,417**	**2,570**	**2,851**
% chg	*4.5*	*8.4*	*6.3*	*10.9*
Net profit	**72**	**81**	**93**	**108**
% chg	*3.0*	*13.6*	*14.8*	*15.7*
EBITDA margin (%)	7.6	8.0	8.3	8.5
EPS (₹)	**9.5**	**10.8**	**12.4**	**14.3**
P/E (x)	29.9	26.3	22.9	19.8
P/BV (x)	4.4	3.5	3.1	2.8
RoE (%)	14.6	13.2	13.6	14.0
RoCE (%)	14.9	14.6	14.5	14.8
EV/Sales (x)	1.1	1.0	0.9	0.9
EV/EBITDA (x)	14.3	12.6	11.4	10.2

Source: Company, Angel Research, Note: CMP as of October 29, 2015

NEUTRAL

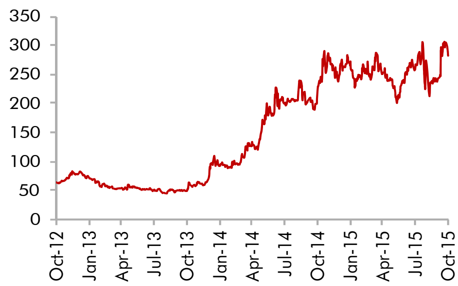
CMP	₹280
Target Price	-
Investment Period	-

Stock Info	
Sector	Logistics
Market Cap (₹ cr)	2,131
Net Debt (₹ cr)	286
Beta	1.6
52 Week High / Low	322 / 199
Avg. Daily Volume	42,736
Face Value (₹)	2
BSE Sensex	26,838
Nifty	8,112
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	2.3	10.3	44.0
TCIL	9.2	28.0	340.5

3-year price chart



Source: Company, Angel Research

Amarjeet S Maurya
022-39357800 Ext: 6831
amarjeet.maurya@angelbroking.com

Exhibit 1: Standalone quarterly performance

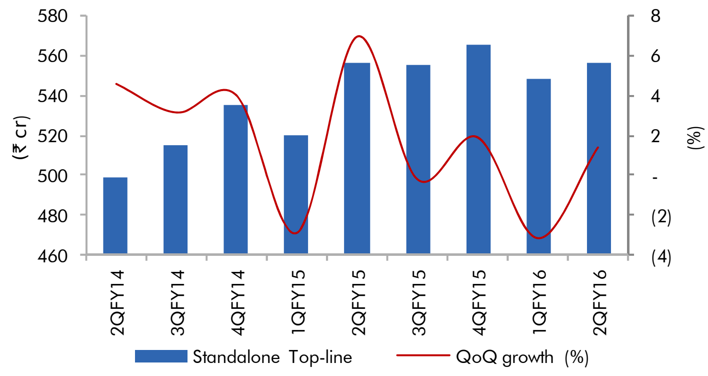
Y/E March (₹ cr)	2QFY16	2QFY15	% yoy	1QFY15	% qoq	FY2015	FY2014	% chg
Net Sales	**556**	**556**	*(0.01)*	**548**	*1.4*	**2,197**	**2,027**	*8.4*
Operating Expense	437	451	*(3.0)*	439	*(0.5)*	1,765	1,641	*7.5*
(% of Sales)	*78.6*	*81.1*		*80.1*		*80.3*	*81.0*	
Staff Costs	*37*	*31*	*18.7*	*35*	*5.1*	125	113	*11.0*
(% of Sales)	*6.6*	*5.6*		*6.4*		*5.7*	*5.6*	
Other Expense	*38*	*33*	*14.7*	*33*	*16.8*	137	124	*10.0*
(% of Sales)	*6.9*	*6.0*		*6.0*		*6.2*	*6.1*	
Total Expenditure	**512**	**515**	*(0.6)*	**507**	*1.0*	**2,026**	**1,878**	*7.9*
Operating Profit	**44**	**41**	*7.2*	**41**	*5.8*	**170**	**149**	*14.1*
OPM (%)	*7.9*	*7.3*		*7.5*		*7.8*	*7.4*	
Interest	7	8	*(15.4)*	7	*3.7*	32	30	
Depreciation	13	12	*8.2*	13	*1.6*	49	42	*16.6*
Other Income	6.2	6.7	*(7.0)*	4.0	*55.1*	12	6	*116.4*
PBT	**30**	**27**	*10.2*	**26**	*16.0*	**101**	**83**	*22.2*
Ext Income/(Expense)						0	-	
PBT (incl. Ext Items)	**30**	**27**	*10.2*	**26**	*(60.4)*	**101**	**83**	*22.0*
(% of Sales)	*5.4*	*4.9*		*4.7*		*4.6*	*4.1*	
Provision for Taxation	7	6	*14.8*	7	*(5.4)*	25	21	*20.6*
(% of PBT)	*22.3*	*21.4*		*27.4*		*24.9*	*25.2*	
Minority Interest								
Recurring PAT	**23**	**21**	*9.0*	**19**	*24.1*	**76**	**62**	*22.5*
PATM	*4.2*	*3.8*		*3.4*		*3.5*	*3.1*	
Exceptional items								
Reported PAT	**23**	**21**	*9.0*	**19**	*24.1*	**76**	**62**	*22.5*
Equity shares (cr)	7.6	7.6		7.6		7.6	7.6	
FDEPS (₹)	**3.1**	**2.8**	*9.0*	**2.5**	*24.1*	**10.0**	**8.2**	*22.5*

Source: Company, Angel Research

Muted standalone top-line performance

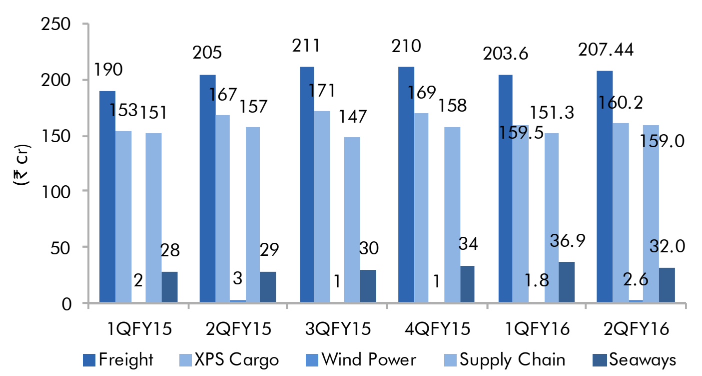
For the quarter, TCIL reported a flat standalone top-line on a yoy basis of ~₹556cr, owing to lower growth in Freight, XPS and Supply Chain Solutions segments. The company's Freight segment reported a growth of ~1% while the XPS segment reported a de-growth of ~4% yoy. The Supply Chain Solutions segment reported a subdued ~2% yoy growth due to slowdown in the automobile sector (~75% of this segment's business comes from the automobile sector). However, TCIL reported a decent revenue growth of ~11% yoy in the Seaways segment.

Exhibit 2: Top-line growth trend



Source: Company, Angel Research

Exhibit 3: Segment wise revenue trend

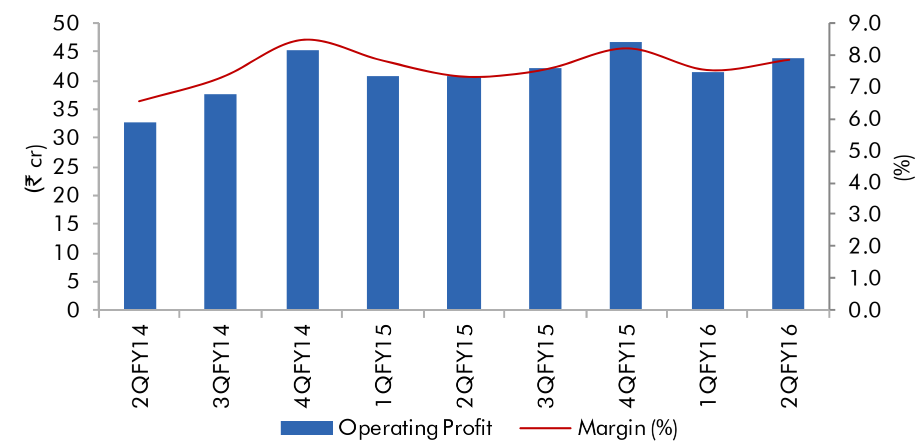


Source: Company, Angel Research

Operating margin expands due to lower operating expenses

For the quarter, the company reported an operating profit of ~₹44cr, up ~7% yoy. Further, the company's operating margin expanded by 53bp yoy to 7.9%, primarily on account of lower operating expenses, which declined by 245bp yoy as a percentage of sales.

Exhibit 4: Operating profit and margin trend

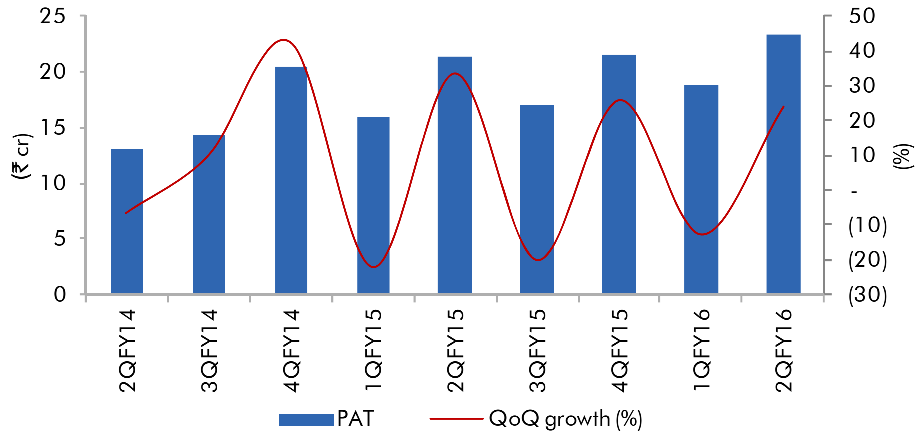


Source: Company, Angel Research

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

In 2QFY2016, TCIL posted a earnings growth of ~9% yoy to ~₹23cr, owing to operating improvement and lower interest costs.

Exhibit 5: Net Profit and growth trend



Source: Company, Angel Research

Investment rationale

Top-line to report 9% 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 ~9% CAGR over FY2015-17E on the back of revival in the Indian economy. Among TCIL's four business segments, we expect the Express segment to report ~12% CAGR. 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 to report a ~11% CAGR 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 economic revival and are expected to report ~5% and 13% CAGR respectively.

Stepped-up capex spending in higher margin businesses to aid overall earnings growth trajectory

As the demand environment improves, we expect margins to improve across segments for TCIL. Moreover, we expect the company to increase focus on higher margin businesses like XPS and Supply Chain Solutions. As a result, the revenue contribution of these businesses is expected to increase from ~56% in FY2014 to ~61% in FY2017E, with the company having aggressive expansion plans in these businesses (₹500cr capex over FY2015-17E). As a result, we expect overall margins to improve from 8% in FY2015 to 9% in FY2017, thereby driving a 30% CAGR in net profits over the same period.

Well positioned due to its Asset light business model

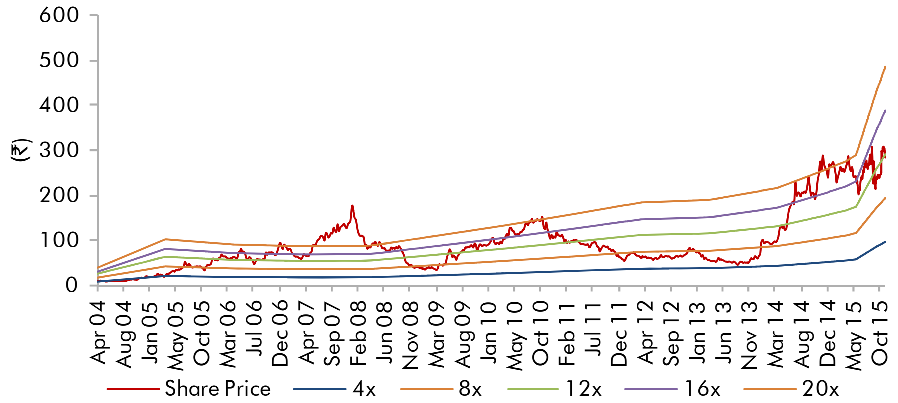
TCIL operates on an asset light business model where it owns 20% of the total fleet and leases the remaining 80%. The company has scaled its business model to 7,000 trucks/trailers/reefer vehicles as of today. On the same lines, TCIL has been prudent in managing warehousing space, as a majority of its total 10mn sq ft of warehousing space is on 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 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.**

Exhibit 6: One-year forward P/E band



Source: Company, Angel Research

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
Total operating income	2,132	2,228	2,417	2,570	2,851
% chg	*9.0*	*4.5*	*8.4*	*6.3*	*10.9*
Total Expenditure	1,957	2,058	2,224	2,357	2,608
Personnel Expenses	112	117	130	146	171
Others Expenses	1,845	1,941	2,093	2,210	2,437
EBITDA	175	170	193	213	242
% chg	*10.6*	*(2.7)*	*13.6*	*10.4*	*13.6*
(% of Net Sales)	*8.2*	*7.6*	*8.0*	*8.3*	*8.5*
Depreciation & Amortisation	46	47	55	60	69
EBIT	128	123	139	153	174
% chg	*10.3*	*(4.0)*	*12.5*	*10.3*	*13.6*
(% of Net Sales)	*6.0*	*5.5*	*5.7*	*6.0*	*6.1*
Interest & other Charges	34	31	33	35	37
Other Income	6	7	9	14	16
(% of PBT)	*6.3*	*7.2*	*7.9*	*10.6*	*10.5*
Share in profit of Associates	-	-	-	-	-
Recurring PBT	101	99	114	132	153
% chg	*18.1*	*(1.8)*	*15.2*	*15.3*	*15.6*
Prior Period & Extra. Exp./(Inc.)	-	-	0	-	-
PBT (reported)	101	99	114	132	153
Tax	32	27	33	38	44
(% of PBT)	*31.2*	*27.7*	*28.5*	*29.0*	*29.0*
PAT (reported)	70	72	82	94	108
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	0	0	0	0	0
PAT after MI (reported)	70	72	81	93	108
ADJ. PAT	70	72	82	93	108
% chg	*16.8*	*3.0*	*13.6*	*14.8*	*15.7*
(% of Net Sales)	*3.3*	*3.2*	*3.4*	*3.6*	*3.8*
Basic EPS (₹)	9.2	9.5	10.8	12.4	14.3
Fully Diluted EPS (₹)	9.2	9.5	10.8	12.4	14.3
% chg	*16.8*	*3.0*	*13.6*	*14.8*	*15.7*

Consolidated Balance sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	15	15	15	15	15
Reserves& Surplus	422	476	601	674	756
Shareholders Funds	**437**	**491**	**616**	**689**	**772**
Minority Interest	1	3	3	3	3
Total Loans	354	336	336	366	406
Deferred Tax Liability	32	33	33	33	33
Total Liabilities	**824**	**863**	**988**	**1,091**	**1,213**
APPLICATION OF FUNDS					
Gross Block	652	693	823	973	1,123
Less: Acc. Depreciation	234	262	316	376	445
Net Block	**418**	**432**	**507**	**597**	**678**
Capital Work-in-Progress	5	18	18	18	18
Investments	**8**	**8**	**7**	**7**	**7**
Current Assets	534	543	603	640	705
Inventories	2	2	2	2	2
Sundry Debtors	395	380	420	437	476
Cash	46	43	42	63	73
Loans & Advances	67	65	79	77	80
Other Assets	24	53	60	62	74
Current liabilities	141	138	148	171	195
Net Current Assets	**393**	**405**	**455**	**469**	**510**
Mis. Exp. not written off	-	-	-	-	-
Total Assets	**824**	**863**	**988**	**1,091**	**1,213**

Consolidated Cash flow

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	101	99	114	132	153
Depreciation	46	47	55	60	69
Change in Working Capital	(46)	15	(51)	8	(31)
Interest / Dividend (Net)	29	25	33	35	37
Direct taxes paid	(26)	(28)	(33)	(38)	(44)
Others	0	0	-	-	-
Cash Flow from Operations	**104**	**158**	**118**	**197**	**183**
(Inc.)/ Dec. in Fixed Assets	(55)	(98)	(128)	(150)	(150)
(Inc.)/ Dec. in Investments	(6)	-	1	-	-
Cash Flow from Investing	**(61)**	**(98)**	**(129)**	**(150)**	**(150)**
Issue of Equity	1	1	60	-	-
Inc./(Dec.) in loans	13	(19)	-	30	40
Dividend Paid (Incl. Tax)	(8)	(12)	(16)	(21)	(26)
Interest / Dividend (Net)	(35)	(33)	(33)	(35)	(37)
Cash Flow from Financing	**(28)**	**(63)**	**10**	**(26)**	**(23)**
Inc./(Dec.) in Cash	15	(3)	(1)	21	10
Opening Cash balances	**31**	**46**	**43**	**42**	**63**
Closing Cash balances	**46**	**43**	**42**	**63**	**73**

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	30.8	29.9	26.3	22.9	19.8
P/CEPS	18.5	18.1	15.7	13.9	12.1
P/BV	4.9	4.4	3.5	3.1	2.8
Dividend yield (%)	0.5	0.6	0.8	1.0	1.2
EV/Sales	1.1	1.1	1.0	0.9	0.9
EV/EBITDA	14.0	14.3	12.6	11.4	10.2
EV / Total Assets	2.5	2.4	2.1	1.9	1.8
Per Share Data (₹)					
EPS (Basic)	9.2	9.5	10.8	12.4	14.3
EPS (fully diluted)	9.2	9.5	10.8	12.4	14.3
Cash EPS	15.3	15.7	18.0	20.4	23.4
DPS	1.5	1.8	2.2	2.7	3.4
Book Value	57.8	64.9	81.4	91.1	102.0
Returns (%)					
ROCE	16.2	14.9	14.6	14.5	14.8
Angel ROIC (Pre-tax)	17.4	15.9	15.4	15.5	15.8
ROE	15.9	14.6	13.2	13.6	14.0
Turnover ratios (x)					
Asset Turnover (Gross Block)	5.1	5.2	4.8	4.3	4.2
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
Solvency ratios (x)					
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

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

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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

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