

**Company Background:** SCI was established in the year 1961 by merging eastern and western Shipping Corporation of India. The company has been providing yeoman services to India's economy by meeting its ocean transport needs. Starting as a linear shipping company only with 19 vessels today SCI has emerged as India's only mainline carrier providing linear services from India to major global destinations. SCI owns fleet of Bulk carriers, oil tankers, Container vessels, Gas carriers and offshore supply vessels. As of today company owns India's 34% of tonnage while operating in all areas of shipping services. Government of India continues to hold 63% stake in the company.

## Investment Rationale

### Biggest Beneficiary of reviving global trade

Shipping sector is the biggest beneficiary of reviving global trade on back of improving demand from developed economies. This has led to increasing demand for commodities which has resulted in better tonnage for shipping companies all over world. SCI with 78% contribution from bulk vessels is expected to benefit from this trend. Historically it is evidence shows that pricing of shipping companies increases when volumes increase and we expect this scenario to play out in coming year. Bulk segment had suffered pressure from 2008 to 2016 due to global slowdown at start of decade and lower commodity prices from 2014-16 but has been recovering after that evident from fact that this is only division posting profits for SCI. Oversupply in bulk segment has also led to limited vessel addition which would aid in better pricing discipline when industry recovery as number of shipping operators has reduced compared to last decade of have broken balance sheets.

### Rising crude prices to drive oil tanker business

Rising crude prices in recent past generally have positive impact on oil tanker realizations as these realizations have certain variable charges which depend on oil prices and rising prices have made some of field viable which would further drive volumes. Oil tanker happens to be second largest business and is expected to recover in on account of rise in crude oil prices. Offshore business which has been facing massive over capacity on account of reduced exploration activities is expect to post lower losses as the pressure in this business is expected to ease out further limiting losses for SCI.

### Recovery in Baltic index to improve valuation of fleet

Baltic dry index is key deciding factor for valuation of ships in ship trading market and this index had fell from levels 9500 to 500 from 2008 to 2015 which is in line with shipping industry cycle. This index has been on recovery since 2015 and has now risen to 1400 which is driving valuation for ships higher and suggesting better days higher for shipping industry. As shipping companies are valued on NAV basis based on value of ship rising Baltic index directly drives valuation of these companies.

### Rising domestic costal trade to add to volumes

India off late has been focusing more on inter-port transport for movement of bulk goods as waterways is cheapest means of transport. Shipping companies are expected to benefit from this move but it would take 3-4 years to show visible numbers

**Valuation & Outlook:** The rising commodity prices and improving global economy are expected to benefit shipping industry which had been under pressure since 2008. This factor is even evident from rise in Baltic index from 500 levels to 1400 suggesting recovery in shipping cycle which would lead to both rise in profits for cargo and rise in value for ships. SCI which controls 34% of India's tonnage is expected to be prime beneficiary from this recovery we expect better earning for SCI in coming quarters. We have valued SCI 0.7 times its estimated book value in FY19 (in line with GE shipping valuation) and arrive at target price of Rs112

## Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

## Sector Outlook

Positive

## Stock

CMP (Rs)	94
Target Price (Rs)	112
BSE code	523598
NSE Symbol	SCI
Bloomberg	SCI IN
Reuters	SCI.BO

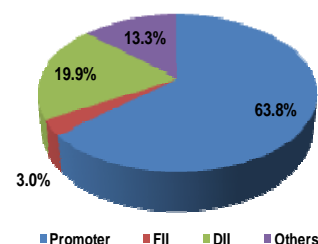
## Key Data

Nifty	
52WeekH/L(Rs)	113/55
O/s Shares (mn)	46.5
Market Cap (Rs Bn)	45
Face Value (Rs)	10

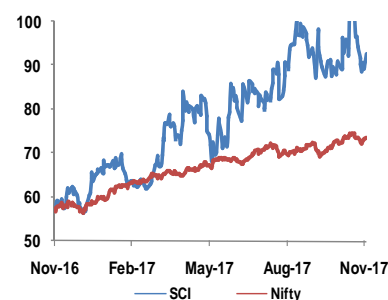
## Average volume

3 months	2,159,140
6 months	1,924,180
1 year	1,592,110

## Share Holding Pattern (%)



## Relative Price Chart



## Research Team

022-61596407



## Fundamental Pick

Key Financials				
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E
<b>Revenue</b>	<b>40,499</b>	<b>34,469</b>	<b>37,226</b>	<b>40,577</b>
Growth%	-6.1%	-14.9%	8.0%	9.0%
<b>EBITDA</b>	<b>13,436</b>	<b>7,606</b>	<b>10,535</b>	<b>12,619</b>
Growth%	49.5%	-43.4%	38.5%	19.8%
<b>Net Profit</b>	<b>7,533</b>	<b>1,354</b>	<b>1,861</b>	<b>4,788</b>
Growth%	286.3%	-82.0%	37.4%	157.2%
<b>Diluted EPS (Rs.)</b>	<b>16.2</b>	<b>2.9</b>	<b>4.0</b>	<b>10.3</b>
Growth%	120.6%	-82.0%	37.4%	157.2%
Key Ratios				
<b>EBITDA(%)</b>	<b>33.2%</b>	<b>22.1%</b>	<b>28.3%</b>	<b>31.1%</b>
NPM (%)	18.6%	3.9%	5.0%	11.8%
<b>RoE (%)</b>	<b>11.2%</b>	<b>2.0%</b>	<b>2.6%</b>	<b>6.4%</b>
<b>BV/Per Share (Rs.)</b>	<b>144.7</b>	<b>148.8</b>	<b>151.3</b>	<b>160.2</b>
Valuation Ratios				
P/E (x)	5.8x	32.3x	23.5x	9.1x
<b>EV/EBITDA (x)</b>	<b>8.0x</b>	<b>11.7x</b>	<b>8.6x</b>	<b>6.9x</b>
Market Cap./ Sales (x)	1.1x	1.3x	1.2x	1.1x

Source: Company, BP Equities Research



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**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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