

May 9, 2020

Asset light model to tide over uncertain environment

TCI Express (TCIEL) reported revenues, profitability below I-direct estimates. Revenue de-grew 10.5% YoY driven by 11.5% volume de-growth amid a challenging business environment. EBITDA margins fell 149 bps to 11.2% mainly due to lower operating leverage (employee & other expense). Hence, absolute EBITDA de-grew 21% YoY to ₹ 27 crore. PAT de-grew 12.5% YoY to ₹ 19 crore, mainly due to a below expected operational performance (negated up to a certain limit by lower tax rate of 25.5% vs. 33.8%).

Increased digitisation, innovation to drive growth ahead

Revenue growth in FY20 was flat YoY (slower than usual FY17-19 CAGR of 17%) owing to continuing crisis. FY21 has begun with a completely new landscape for the logistics business. While April was largely spent in addressing on-ground challenges (hiccups in interstate movement, greater micro-management of trucks), May has largely seen phase wise pickup in manufacturing & related supply chain activities. The management expects economic growth to normalise post H1FY21. Revival of SME sector remains key to TCI Express' fortunes. It is expected to tide over the current crisis by continued automation, enhancing technological capabilities and reducing field footprints. EBITDA margins continue to remain healthy (11.5%), as the management insists on picking up only profitable sales. We expect the company to report a revival in revenue growth from FY22 driven by new branch additions & expansion of clients in SME segment. On EBITDA margin front, we largely expect it to stay rangebound at 11-12%, going ahead.

Planned capex maintained at ₹ 400 crore for five years

Overall, the company has maintained a capex guidance of ₹ 400 crore in five years (of which ₹ 119 crore has already been spent in the last three years), which is lower than the expected run rate owing to a delay in getting regulatory approvals for expansion of the planned sorting centres and the current uncertain environment. During the year, TCIEL added 70 new branches and two new sorting centres at Gurgaon and Pune to be operational by Q3FY21. The planned capex would be utilised to expand its reach in Tier II, III cities (hub & spoke model - reach 1000 offices count), open new sorting centres, develop in-house analytics, etc.

Valuation & Outlook

Covid-19 continues to impact express logistics. However, players like startups funded by private equity are seeing greater stress in cashflow management, inflated labour cost and other expenses. This can deter them from dealing in unprofitable business sales, lowering competitive intensity in the segment. Low leverage, a robust growth trajectory and high core return ratios (FY22E RoCE at 31%, healthy FCF yield), position TCIEL as one of the preferred picks in the logistics space. We value TCIEL at 29x P/E with a target price of ₹ 850 and a **BUY** recommendation.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20P	FY21E	FY22E	CAGR
Revenues (₹crore)	885.1	1,023.8	1,032.0	1,083.6	1,278.6	9.6
EBITDA (₹crore)	90.7	119.0	121.3	113.8	153.4	14.1
Adjusted Net Profit (₹crore)	58.4	72.9	89.1	83.0	113.4	18.1
EPS (₹)	15.2	19.0	23.3	21.7	29.6	18.1
P/E (x)	44.9	36.0	29.4	31.6	23.1	
Price / Book (x)	12.7	9.8	7.8	6.5	5.2	
EV/EBITDA (x)	29.2	22.0	21.5	22.9	17.0	
RoCE (%)	38.3	42.3	36.3	27.7	30.9	
RoNW (%)	31.8	30.7	29.5	22.4	25.0	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹Cr)	2,301.1
Total Debt (FY 20P) (₹Cr)	2.8
Cash (FY 20) (₹Cr)	12.6
EV (₹Cr)	2,291.4
52 week H/L	949/456
Equity capital (₹Cr)	3.8
Face value (₹)	2.0

Key Highlights

- Planned space addition of 3.5 lakh sq ft by Q3FY21 with start of two new sorting centres in Gurgaon and Pune
- The company has spent ~ ₹ 119 crore on capex in last three years. The capex intensity is expected to pick up in FY22 with investment in new sorting centres
- Expect revenue, EBITDA, PAT CAGR of 11%, 12%, 13%, respectively, in FY20-22E
- Maintain BUY

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Exhibit 1: Variance Analysis

	Q4FY20	4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	237.9	276.5	265.8	-10.5	268.4	-11.3	YoY de-growth mainly due to increased uncertainty in business environment due to Covid-19 crisis
Operating expenses	166.5	199.1	189.4	-12.1	189.6	-12.2	
Employee Expenses	25.0	26.3	22.3	12.0	25.1	-0.6	
Other Expense	19.8	19.4	20.4	-3.0	19.4	2.2	
Total Expense	211.3	244.7	232.1	-9.0	234.1	-9.7	
EBITDA	26.7	31.8	33.8	-21.0	34.3	-22.2	
EBITDA Margin (%)	11.2	11.5	12.7	-149 bps	12.8	-157 bps	Lower margins on account of lower operating leverage
Depreciation	2.1	1.8	1.7	22.5	2.1	-2.8	
Interest	0.3	0.2	0.5	-43.8	0.2	80.0	
Other Income	1.2	1.2	1.2	-2.5	0.9	36.0	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	25.5	31.1	32.8	-22.2	32.9	-22.4	
Total Tax	6.5	7.8	11.1	-41.3	7.4	-11.6	Tax rate at 25.5%
PAT	19.0	23.3	21.7	-12.5	25.5	-25.5	Lower tax rate partly offsets weak operational performance

Source: ICICI Direct Research

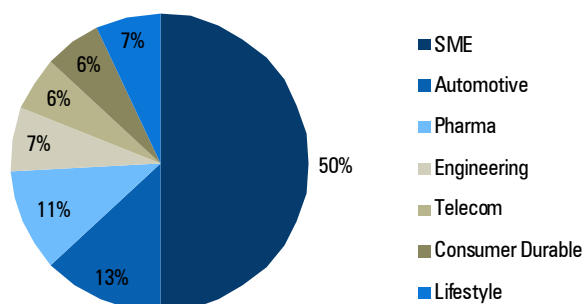
Exhibit 2: Change in estimates

	FY21E					FY22E			Comments
(₹Crore)	FY 19	FY 20	Old	New	% Change	Old	New	% Change	
Gross Revenue	1,023.8	1,032.0	1,236.2	1,083.6	-12.3	1,421.7	1,278.6	-10.1	Revenue estimates revised downwards due to extended uncertainty due to COVID-19 crisis
EBITDA	119.0	121.3	158.9	113.8	-28.4	188.1	153.4	-18.4	
EBITDA Margin (%)	11.6	11.8	12.5	10.5	-200 bps	13.2	12.0	-123 bps	Margin performance likely to be impacted due to lower operating leverage
PAT	72.9	89.1	113.9	83.0	-27.2	140.0	113.4	-19.0	
EPS (₹)	19.0	23.3	29.8	21.7	-27.3	36.6	29.6	-19.0	

Source: Company, ICICI Direct Research

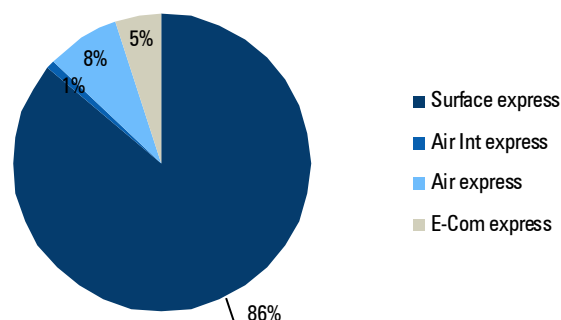
Key Metrics

Exhibit 3: Industry verticals



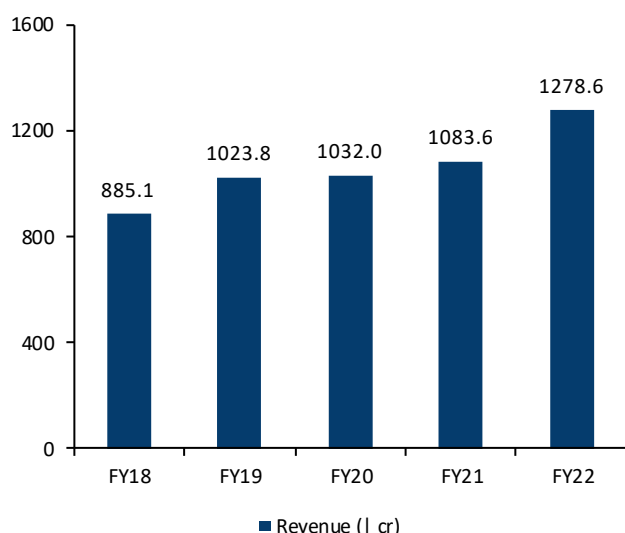
Source: ICICI Direct Research, Company

Exhibit 4: Products segment



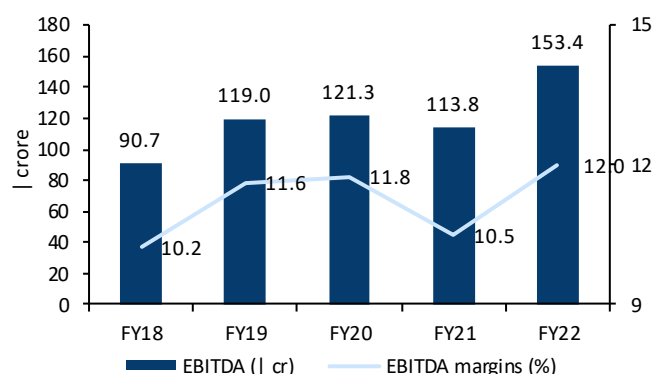
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 11% CAGR in FY20-22



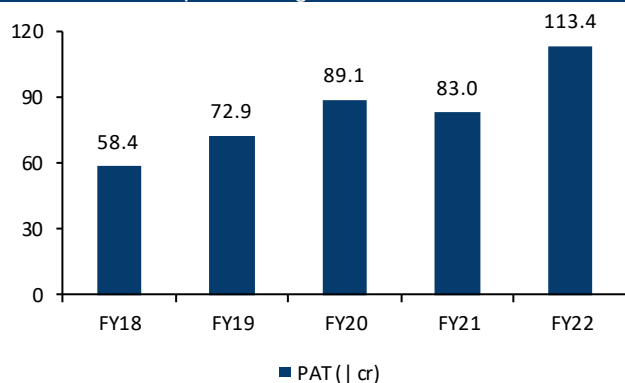
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA likely to grow at 12% CAGR in FY20-22



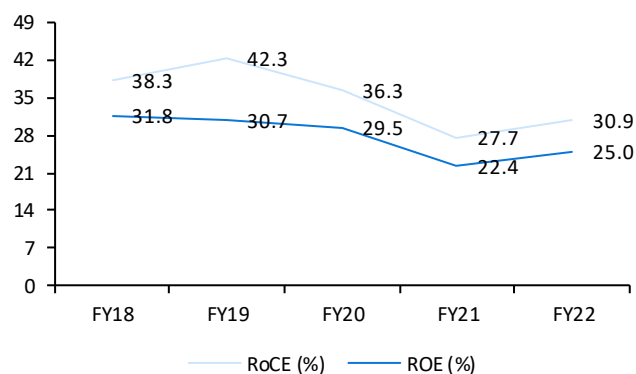
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 13% CAGR in FY20-22



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



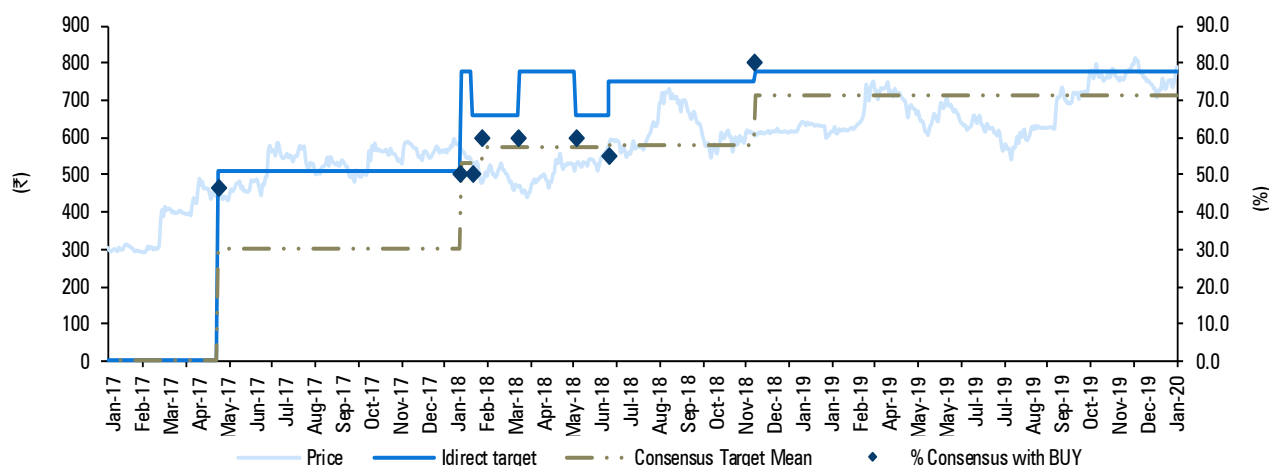
Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

Year	Sales (₹Crore)	Sales Gr.	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBIT	RoNW (%)	RoCE (%)
FY 18	885.1	18.0	15.2	55.7	44.9	29.2	31.8	38.3
FY 19	1023.8	15.7	19.0	24.8	36.0	22.0	30.7	42.3
FY 20P	1032.0	0.8	23.3	22.3	29.4	21.5	29.5	36.3
FY 21E	1083.6	5.0	21.7	-6.9	31.6	22.9	22.4	27.7
FY 22E	1278.6	18.0	29.6	36.7	23.1	17.0	25.0	30.9

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation history vs. Consensus



Source: ICICI Direct Research; Reuters

Exhibit 11: Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Bhoruka Express	3-Jul-19	44.4	17.04m	17.04m
2	Bhoruka Finance Corp	3-Jul-19	20.7	7.95m	0.00m
3	Bhoruka Internationa	3-Jul-19	13.8	5.29m	0.00m
4	Agarwal Dharam Pal	3-Jul-19	10.2	3.93m	0.00m
5	Tci Trading	30-Jun-19	6.5	2.49m	2.49m
6	Tci India Ltd	3-Jul-19	5.3	2.02m	0.00m
7	Tci Global Logistics	3-Jul-19	3.0	1.15m	0.00m
8	Arcee Holdings Ltd	30-Jun-19	2.7	1.02m	0.00m
9	Agarwal Vineet	3-Jul-19	2.6	1.00m	0.00m
10	Agarwal Vineet	30-Jun-19	2.6	0.99m	0.98m

Source: ICICI Direct Research, Reuters, Company

Exhibit 12: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	66.1	66.1	66.1	66.1
FII	7.1	5.1	5.3	5.3
DII	7.3	9.7	10.3	10.3
Others	19.5	19.1	18.3	18.3

Source: ICICI Direct Research, Reuters, Company

Financial Summary

Exhibit 13: Profit & Loss Statement

₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	1,023.8	1,032.0	1,083.6	1,278.6
Growth (%)	15.7	0.8	5.0	18.0
Operating expenses	753.4	734.2	780.2	907.8
Employee Cost	85.9	101.8	113.8	134.3
Other expenses	65.6	74.7	75.8	83.1
Other expenses	65.6	74.7	75.8	83.1
EBITDA	119.0	121.3	113.8	153.4
Growth (%)	31.3	1.9	(6.2)	34.9
Depreciation	6.5	7.8	9.3	11.6
EBIT	112.5	113.5	104.4	141.9
Interest	3.8	0.9	0.1	0.1
Other Income	3.2	4.4	6.6	9.8
PBT	111.9	117.0	110.9	151.6
Growth (%)	33.6	4.6	(5.2)	36.7
Tax	39.0	27.9	27.9	38.2
Reported PAT	72.9	89.1	83.0	113.4
Exceptional Items	-	-	-	-
Adjusted PAT	72.9	89.1	83.0	113.4
Growth (%)	24.7	22.3	(6.9)	36.7
EPS	19.0	23.3	21.7	29.6

Source: ICICI Direct Research

Exhibit 14: Cash flow Statement

₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	72.9	89.1	83.0	113.4
Less: Dividend Paid	(3.8)	(0.9)	(0.1)	(0.1)
Add: Depreciation	6.5	7.8	9.3	11.6
Add: Others	-	-	-	-
Cash Profit	83.2	97.8	92.4	125.1
Increase/(Decrease) in I	4.6	(10.4)	11.9	15.3
(Increase)/Decrease in I	(10.2)	(3.3)	1.1	(31.0)
CF from Operating Activ	72.5	53.1	103.2	107.1
(Add) / Dec in Fixed Ass	(19.2)	(27.6)	(47.8)	(73.2)
Changes in goodwill	0.3	(0.7)	-	-
(Inc)/Dec in Investments	(1.3)	0.4	(30.0)	(20.0)
CF from Investing Activit	(20.2)	(27.9)	(77.8)	(93.2)
Inc/(Dec) in Loan Funds	(31.1)	(5.8)	(1.7)	-
Inc/(Dec) in Sh. Cap. & F	(12.5)	(19.0)	(15.3)	(15.3)
Others	(3.8)	(4.9)	(0.0)	(0.0)
CF from financing activit	(47.4)	(29.7)	(17.1)	(15.3)
Change in cash Eq.	4.9	(4.5)	8.4	(1.4)
Op. Cash and cash Eq.	12.2	17.1	12.6	20.9
Cl. Cash and cash Eq.	17.1	12.6	21.0	19.6

Source: ICICI Direct Research

Exhibit 15: Balance Sheet

₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Source of Funds				
Equity Capital	7.7	7.7	7.7	7.7
Reserves & Surplus	259.5	329.6	397.3	495.4
Shareholder's Fund	267.2	337.3	404.9	503.1
Secured Loan	0.5	0.5	0.5	0.5
Unsecured Loan	46.4	11.4	0.6	0.6
Total Loan Funds	8.7	2.8	1.1	1.1
Deferred Tax Liability	-	0.1	0.1	0.1
Minority Interest	5.5	4.1	4.2	4.3
Source of Funds	281.4	344.3	410.3	508.6
Application of Funds				
Gross Block	194.6	212.4	252.4	312.4
Less: Acc. Depreciatio	23.0	30.8	40.1	51.7
Net Block	171.6	181.6	212.3	260.7
Capital WIP	1.4	11.1	18.9	32.1
Total Fixed Assets	172.9	192.7	231.2	292.8
Intangibles	1.5	2.2	2.2	2.2
Investments	1.3	0.9	30.9	50.9
Debtors	163.1	165.8	163.3	192.7
Cash	17.1	12.6	20.9	19.5
Current Investments	-	28.6	30.0	31.5
Loan & Advance, Othe	21.8	24.9	27.0	29.5
Total Current assets	202.0	203.2	211.3	241.7
Creditors	72.3	62.0	70.5	82.1
Other Current Liabilitie	21.2	20.5	23.6	27.2
Provisions	4.1	4.7	4.9	5.2
Deferred Tax Assets	1.2	3.9	3.9	3.9
Total CL and Provision	97.5	87.2	99.1	114.4
Net Working Capital	104.5	116.1	112.2	127.3
Miscellaneous expens	-	-	-	-
Application of Funds	281.4	344.3	410.3	508.6

Source: ICICI Direct Research

Exhibit 16: Key Ratios

(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
Book Value	69.8	88.1	105.8	131.4
EPS	19.0	23.3	21.7	29.6
Cash EPS	20.7	25.3	24.1	32.7
DPS	3.0	4.0	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.6	11.8	10.5	12.0
PAT Margin (%)	7.1	8.6	7.7	8.9
Fixed Asset Turnover (x)	3.7	3.0	2.7	2.5
Debtor (Days)	56.6	58.2	55.0	55.0
Current Liabilities (Days)	33.2	33.4	33.0	33.0
Return Ratios (%)				
RoE	30.7	29.5	22.4	25.0
RoCE	42.3	36.3	27.7	30.9
RoIC	26.4	26.2	20.4	22.5
Valuation Ratios (x)				
P/E	36.0	29.4	31.6	23.1
Price to Book Value	9.8	7.8	6.5	5.2
EV/EBITDA	22.0	21.5	22.9	17.0
EV/Sales	2.6	2.5	2.4	2.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	29.8	126.1	949.4	1,289.8
Debt to EBITDA (x)	0.1	0.0	0.0	0.0
Current Ratio	1.9	2.2	1.9	1.9

Source: ICICI Direct Research

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