

Company update

Logistics

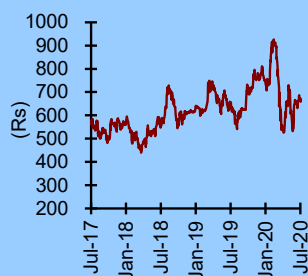
Target price: Rs819

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	67.0	66.9	66.9
Institutional investors	12.3	10.5	10.9
MFs and others	4.1	5.4	6.6
FIs and Banks	0.1	0.1	0.0
Insurance Cos.	0.0	0.0	0.0
FII	8.2	5.0	4.3
Others	20.7	22.6	22.2

Source: NSE

Price chart



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INDIA



TCI Express

BUY

Maintain

Branch economics, cost levers as margin tailwinds **Rs663**

Our analysis of TCI Express' (TCIE) annual report highlights: i) possible improvement in revenue per branch going forward given the 12% decline witnessed in FY20. While number of branches increased by ~100 YoY to reach 800 in FY20, we look at the possibility of the number crossing 1,200 in the medium term. ii) Higher employee costs and higher other expenses mainly on account of significantly increased rentals impacted the margin trajectory in FY20. TCIE has been able to slightly increase the EBITDA margin YoY despite these cost headwinds, on the back of 210bps increase in gross margins. While revenue growth will ensure that the ratio of employee costs to revenues gets normalised, the current pandemic offers an opportunity to reverse the trend of increasing rentals. iii) Analysis of receivables shows a judicial customer mix. iv) Related-party transactions stay limited. **Maintain BUY.**

- **Added ~100 branches in FY20; revenue per branch declined by 12%.** The number of branches increased to 800 from 700 YoY while lack of commensurate revenue growth led to a reduction in revenue per branch (back to FY16 levels). This should improve as the situation normalises and will be the key driver of revenue growth in FY22E. We believe, the number of branches can cross 1,200 in the medium term, implying significant structural upside to current revenues.
- **Net cash and cash equivalents reached Rs372mn in FY20.** This was made possible by Rs618mn of FCF generated while capex was controlled at Rs 190mn. Rs 270mn out of Rs1,674mn of receivables stretch beyond 90 days. Only Rs45.3mn (3%) is stretching beyond 180 days where the expected loss ratio is high at 19%.
- **Employee costs increase to 10% of topline from 8% YoY.** While the number of employees has increased 2.5% YoY, per-employee cost has increased 16% YoY. Annual report justifies this as mainly an incremental cost to attract top talent and retain existing performers. As business environment normalises, TCIE would do well to revert to the old normal of employee costs/revenues.
- **Rent inflation should abate post Covid-19 and from move towards owned spaces.** Inflation in rental expenses is much higher than initially expected, with approximately a third of the rentals going to related parties. Also, rent per sqft of leased space per month, which was Rs18 in FY18, has increased to Rs29 in FY20. Hopefully there will be a reset on account of the pandemic. The increase has been driving growth in other expenses, which rose from 5.6% of the topline in FY18 to 7.43% in FY20. The strategy of ownership of warehousing spaces vs the headwinds on rentals allows an interesting decision matrix for TCIE.

Market Cap	Rs25.2bn/US\$337mn
Reuters/Bloomberg	HALC.BO/TCIEXP IN
Shares Outstanding (mn)	38.4
52-week Range (Rs)	926/526
Free Float (%)	33.1
FII (%)	4.3
Daily Volume (US\$/'000)	397
Absolute Return 3m (%)	24.7
Absolute Return 12m (%)	4.4
Sensex Return 3m (%)	22.5
Sensex Return 12m (%)	(6.0)

Year to March	FY19	FY20E	FY21E	FY22E
Revenue (Rs mn)	10,238	10,320	10,058	11,581
Net Income (Rs mn)	728	891	802	1,045
EPS (Rs)	19.0	23.3	20.9	27.3
% Chg YoY	24.7	22.3	(10.0)	30.4
P/E (x)	32.1	26.2	29.1	22.4
CEPS (Rs)	20.7	25.3	23.6	30.6
EV/E (x)	19.6	19.2	20.8	16.1
Dividend Yield (%)	0.4	0.8	0.8	0.8
RoCE (%)	41.9	34.6	26.9	29.0
RoE (%)	27.3	26.4	20.2	21.8

- **Related-party transactions.** Rent payment to related parties was Rs105.6mn against Rs86.5mn YoY. Rental and freight income from related parties was Rs47.1mn against Rs41.1mn YoY. Total expenditure towards related parties increased from Rs144mn in FY19 to Rs169.2mn in FY21.

Earnings assumptions

We maintain our (moderate) volume assumptions for FY21E, keeping in mind the continued uncertainty expected in the business environment in H1FY21.

Table 1: Assumptions

	FY17	FY18	FY19	FY20	FY21E	FY22E
<i>Tonnage Growth</i>	9.6%	14.0%	13.0%	3.8%	-3.5%	14.0%
<i>Realisation/te Growth</i>	2.6%	3.5%	2.4%	-2.9%	1.0%	1.0%
<i>Cost of Sales/te</i>	8,764	8,859	8,889	8,343	8,528	8,589
<i>Realisation/branch (Rs mn)</i>	13.6	13.6	14.6	13.4	12.3	12.6
<i>No of Branches</i>	550	650	700	770	820	920
<i>Workforce</i>	2,200	2,800	3,000	3,075	3,275	3,675

Source: Company data, I-Sec research

Maintain **BUY** with a target price of Rs819/share

We maintain **BUY** with a target price of Rs819/share, based on 30x FY22E EPS.

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Revenue from operations	10,238	10,320	10,058	11,581
Operating Expenses	9,048	9,107	8,938	10,136
EBITDA	1,190	1,213	1,120	1,445
% margins	11.6%	11.8%	11.1%	12.5%
Depreciation & Amortisation	65	78	100	126
Gross Interest	38	9	3	3
Other Income	32	44	55	80
Profit before tax	1,119	1,170	1,071	1,396
Less: Taxes	390	279	270	351
Net Income (Reported)	728	891	802	1,045

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	1,930	2,222	2,172	2,429
of which cash & cash eqv.	171	126	131	146
Total Current Liabilities & Provisions	975	872	947	1,050
Net Current Assets	954	1,350	1,225	1,379
Net Fixed Assets	1,716	1,816	2,528	3,203
Intangible assets	15	22	22	22
Capital Work-in-Progress	14	111	111	111
Other non-current assets	115	145	145	145
Total Assets	2,814	3,444	4,030	4,860
Liabilities				
Borrowings	87	30	30	30
Deferred Tax Liability	55	41	41	41
Equity Share Capital	77	77	77	77
Reserves & Surplus	2,595	3,296	3,883	4,713
Net Worth	2,672	3,373	3,959	4,789
Total Liabilities	2,814	3,444	4,030	4,860

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Net Profit before tax	1,119	1,170	1,071	1,396
Depreciation	65	78	100	126
Non-Cash Adjustments	48	2	3	3
Working Capital Changes	(69)	(125)	130	(140)
Taxes Paid	(388)	(317)	(270)	(351)
Operating Cashflow	775	808	1035	1034
Capital Commitments	(194)	(190)	(800)	(801)
Free Cashflow	581	618	235	233
Other investing cashflow	0	(283)	(12)	0
Cashflow from Investing Activities	(256)	(595)	(812)	(801)
Inc (Dec) in Borrowings	(309)	(59)	0	0
Finance cost	(38)	(9)	(3)	(3)
Dividend paid	(134)	(213)	(215)	(215)
Cashflow from Financing Activities	(470)	(258)	(218)	(218)
Chg. in Cash & Bank balance	49	(45)	5	15

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (Rs)				
EPS	19.0	23.3	20.9	27.3
Cash EPS	20.7	25.3	23.6	30.6
Book Value per share (BV)	69.8	88.1	103.4	125.1
OCF per share	20.2	21.1	27.0	27.0
FCF per share	15.2	16.1	6.1	6.1
Growth (%)				
Net Sales	15.7	0.8	(2.5)	15.1
EBITDA	31.3	1.9	(7.7)	29.1
PAT	24.7	22.3	(10.0)	30.4
Valuation Ratios (x)				
P/E	34.9	28.5	29.0	22.5
P/BV	9.5	7.5	6.3	5.1
EV / EBITDA	21.3	20.9	20.7	16.2
EV / Sales	2.5	2.5	2.5	2.2
Operating Ratios				
Employee cost / Sales (%)	8.4	9.9	9.9	9.0
Effective Tax Rate (%)	34.9	23.9	25.2	25.2
Net D/E Ratio (x)	(0.0)	(0.0)	(0.0)	(0.0)
FCF yield (%)	2.2	2.3	0.9	0.9
Return/Profitability Ratios (%)				
EBITDA Margins	11.6	11.8	11.1	12.5
Net Income Margins	0.1	0.1	0.1	0.1
Return on Equity (RoE)	27.3	26.4	20.2	21.8
RoCE	41.9	34.6	26.9	29.0

Source: Company data, I-Sec research

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