

TCI Express Ltd

BUY

CMP Rs727

Target Rs936

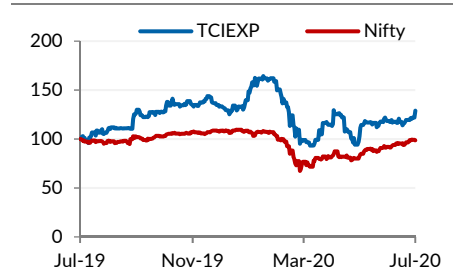
Upside 28.7%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ TCI Express Ltd (TCIE) reported 65% yoy decline in revenues during Q1 FY21 largely impacted by COVID-19 related lockdown. While Apr'20 was a complete washout, utilization in May'20 picked up gradually to ~35% followed by ~58% activity in Jun'20. ✓ During the quarter, the Company took price hikes for certain customer segments which led to ~3% improvement in blended realization. ✓ Operating margin declined to 2.3% (-926 bps yoy) during Q1 FY21. This was primarily due to sharp decline in revenues owing to nationwide lockdown. ✓ Utilization in Jun'20/Jul'20 has improved to ~58%/~80% (vis-à-vis ~35% registered in May'20) with pick-up in manufacturing activities. By Sept'20, the management expects utilization levels to reach 90%. ✓ The management expects to undertake price hike for some of other customer segments (not covered under previous hike) which should support realizations. ✓ Two new owned sorting centres are also expected to start by Q3 FY21 which would help reduce rental costs.
Our View	<ul style="list-style-type: none"> ✓ We expect utilization to reach Pre-COVID levels by start of H2 FY21. We believe significant part of revenue loss would be covered up in H2 FY21 leading to a marginal revenue decline for FY21. ✓ The cost cutting measures, price hikes, opening of owned sorting centres at select locations would ensure improvement in operating margin performance.
Valuation	<ul style="list-style-type: none"> ✓ We largely maintain our estimates for FY22 and retain our BUY rating on the stock with a 12m TP of Rs.936 (32x FY22 PE multiple). We believe the asset light model would significantly benefit the Company in the uncertain business scenario.
Risk to our call	<ul style="list-style-type: none"> ✓ Pro-longed impact of COVID-19 leading to slower activity in end use industries.

Stock data (as on July 27, 2020)

Nifty	11,132
52 Week h/l (Rs)	949 / 456
Market cap (Rs/USD mn)	27886 / 373
Outstanding Shares (mn)	38
6m Avg t/o (Rs mn):	28
Div yield (%):	0.1
Bloomberg code:	TCIEXP IN
NSE code:	TCIEXP

Stock performance



	1M	3M	1Y
Absolute return	8.8%	13.7%	29.7%

Shareholding pattern (As of Jun'20 end)

Promoter	66.9%
FII+DII	10.9%
Others	22.2%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	23.2	21.0	29.3
EPS (Old)	23.2	23.0	29.3
% change	-	-8.8%	-

Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q1 FY21	Q1 FY20	yoy(%)	Q4 FY20	qoq (%)
Revenue	887.4	2,561.7	(65.4)	2,379.4	(62.7)
Operating Profit	20.3	295.9	(93.1)	266.8	(92.4)
OPM (%)	2.3	11.6	-926 bps	11.2	-893 bps
Other Income	14.7	7.3	101.4	11.7	25.6
Depreciation	(21.2)	(17.6)	20.5	(20.7)	2.4
Interest	(1.2)	(2.3)	(47.8)	(2.7)	(55.6)
PBT	12.6	283.3	(95.6)	255.1	(95.1)
Tax	(3.4)	(99.2)	(96.6)	(65.0)	(94.8)
Reported PAT	9.2	184.1	(95.0)	190.1	(95.2)

Source: Company, YES Sec - Research

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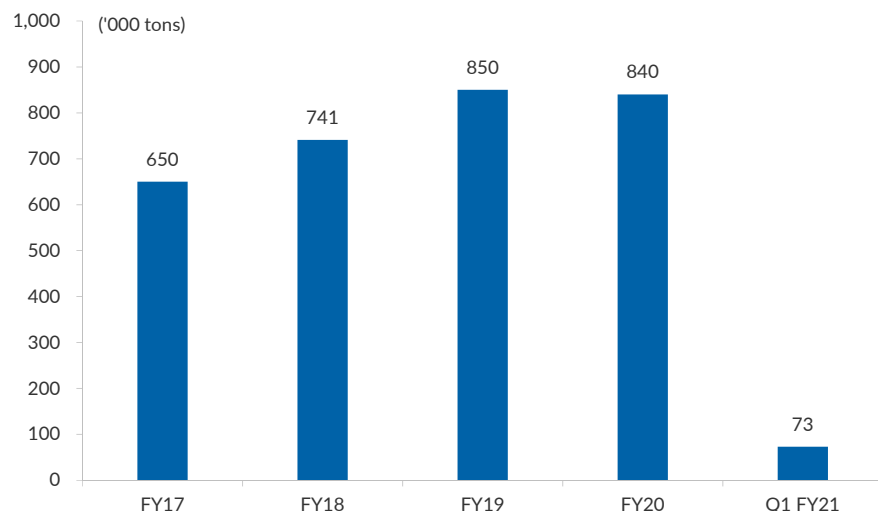
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CON-CALL HIGHLIGHTS

- ✓ TCIE registered ~73,000 tons of volumes (down ~68% yoy) during Q1 FY21, which led to sharp decline in topline performance. This was due to nationwide lockdown in Apr'20 and impact of business of clients leading to less deliveries.
- ✓ The company has increased delivery prices during Q1 FY21, which has resulted into ~3% increase in average realization during the quarter (currently covers 30% of the total customer's count). With likely increase in price hike for remaining customers, the management expects blended realization to improve further.
- ✓ Utilizations in Jun'20/Jul'20 improved to ~58%/~80% (vis-à-vis ~35% registered in May'20) with gradual pick-uptick in manufacturing activities. The management expects 90% of utilization levels by H1 FY21-end.
- ✓ Improvement in gross margin during the quarter is largely led by a) price hikes, b) streamlined operational activities/routes and c) cost optimization. The company expects its operating margin to improve ~200bps/~100bps (to ~14%/~15%) during FY21E/FY22E with continued benefits accruing due to ongoing cost reduction exercise.
- ✓ With the continuing shutdown in some regions/clusters and gradual pickup in deliveries, the management has lowered their revenue guidance from ~10% yoy growth to flattish growth in FY21 (expects volume/price: 5% decrease/ ~5% increase respectively)
- ✓ Asset light model with vendors handling drivers/manpower immunes company from driver/manpower shortage. At present, the company is operating with ~1,500 vehicles (from vendors).
- ✓ The company expects commencement of commercial operations from new sorting centres (Gurgaon and Pune) from Q3 FY21. The owned sorting centre is likely to translate into ~Rs.30mn of cost savings on annual basis.
- ✓ During Q1 FY21, the company has incurred ~Rs.160mn of capex primarily utilized in construction of sorting centre. The management has guided for ~Rs.2.8bn of capex to be spent over next ~3 years mainly for technological advancement and sorting centres.

Exhibit 2: Volume trend



Source: Company, YES Sec - Research

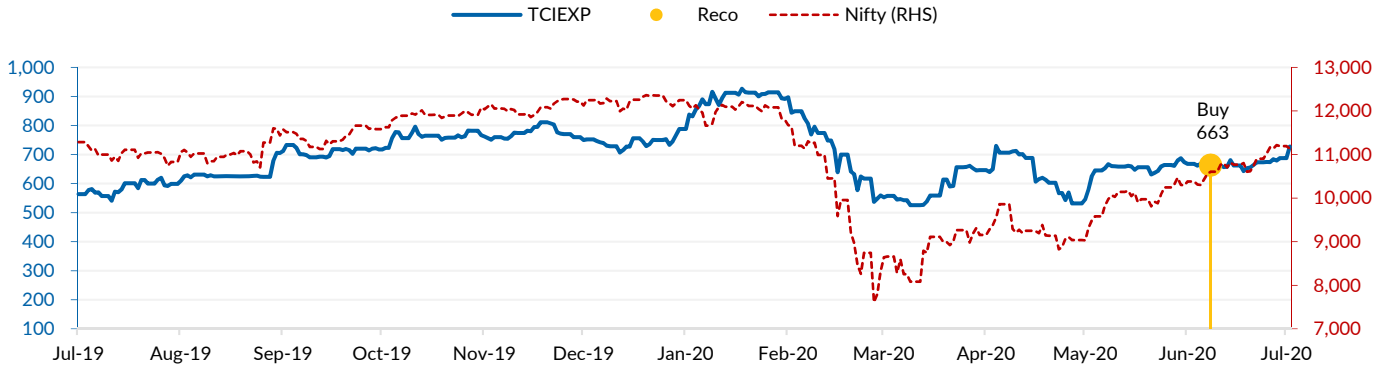
FINANCIALS

Exhibit 3: Financial Summary

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	10,238	10,320	9,659	12,748
yoy growth (%)	15.7	0.8	(6.4)	32.0
Operating profit	1,190	1,213	1,129	1,575
OPM (%)	11.6	11.8	11.7	12.4
Adjusted PAT	728	891	804	1,122
yoy growth (%)	24.7	22.3	(9.7)	39.5
EPS (Rs)	19.0	23.2	21.0	29.3
P/E (x)	38.2	31.3	34.7	24.8
EV/EBITDA (x)	23.3	22.7	24.4	17.5
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	30.7	29.5	21.8	25.1

Source: Company, YES Sec – Research

Recommendation Tracker



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BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

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