Sharekhan by BNP PARIBAS

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TCI Express Limited

Strong growth opportunities lie ahead

Logistics	Sharekhan code: TCIEXP	Company Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↓	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 873**	
Price Target: **Rs. 1054**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

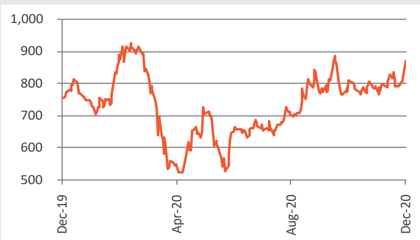
Company details

Market cap:	Rs. 3,356 cr
52-week high/low:	Rs. 950/491
NSE volume: (No of shares)	0.3 lakh
BSE code:	540212
NSE code:	TCIEXP
Free float: (No of shares)	1.3 cr

Shareholding (%)

Promoters	66.8
FII	2.1
DII	9.8
Others	21.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.2	12.8	34.0	15.4
Relative to Sensex	-2.5	-2.8	-0.1	5.9

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on TCI Express Limited (TCI) with a revised PT of Rs. 1,054, believing it to achieve its higher-than-industry growth rate led by strong growth opportunities ahead.
- Q3 revenue is expected to grow in single digits, affected by Covid-led restrictions in key states such as Gujarat and Delhi. However, FY2021 and FY2025 guidance remain intact.
- Hugh growth opportunity in vaccine delivery as organised players such as TCI with a strong pan-India network are preferred. The final print from the government is yet to come. The company may look at outsourcing or servicing through own network.
- Expansion of sorting centres is on track, with Pune and Gurgaon expected to be completed by Q3 and Q4, respectively. Expansion would aid in reducing turnaround time, effectively increasing capacity.

We interacted with Mr. Mukti Lal, CFO, TCI Express Limited (TCI) to update ourselves with respect to the current developments and future outlook of the company. The company witnessed good demand during November 2020 till Diwali, although the same was sluggish thereafter due to Covid-related restrictions in Gujarat and Delhi. Management expects to achieve single-digit growth for Q3; however, it has retained its guidance for FY2021 (10%-12% y-o-y decline in revenue affected by weak Q1, while OPM is likely to be better than FY2020). TCI's longer-term guidance remains intact; management expects doubling revenue and tripling of net profitability by FY2025. TCI is also looking forward to delivery of Covid-19 vaccines domestically as it has a strong reach of 40,000 touch points pan-India and the government's preference for the said task is expected to be organised players (unorganised market share is 85%-90%). The company may work upon the outsourcing model for such transportation or through specialised temperature-controlled boxes in its own network. The transportation of vaccines provides a huge opportunity for TCI, but the final print is yet to be decided by the government, which is expected by March 2021. The company has received LoIs from few states for transportation of vaccines. However, the company would evaluate profitability before venturing into the same. On the sorting centre expansion, its Pune (size to increase from 50,000 to 1.5 lakh square feet) and Gurgaon (size to increase from 50,000 square feet to 2 lakh square feet) centres are on track and are expected to complete by Q3FY2021 and Q4FY2021, respectively. Management is also eyeing new locations for sorting centres at Chennai, Mumbai, Nagpur, and Indore. Out of the Rs. 400 crore capex earmarked for expansion of sorting centres, it is left with Rs. 355 crore to be spent over the next 2.5 years. The expansion in sorting centres along with automation would aid in faster turnaround time for TCI, indirectly leading to capacity expansion. On the MORTH notification dated July 2020 of increasing the permissible height of containerised truck from 3.8m to 4m, the company has converted half of its line haul fleet (2,000 trucks with 60:40 mix of 9T:14T out of total fleet size of 5,000 trucks), which would aid in reducing transportation cost per unit. TCI would also be opening 60-80 branches per annum over the long term; although for FY2021, it may add 35-40 new branches due to Covid-led disruption. TCI's cash flows from operations grew significantly, driven by its focus on cash management, with a cash balance of Rs. 87 crore as of September 2020 end. Post normalcy, we expect the company to capitalise on improving infrastructure, national logistics policy, and GST to revive its revenue growth trajectory going ahead. Further, TCI has a strong balance sheet, healthy cash flow-generation capacity, and high return ratios. Though, TCI is trading at 26.5x its FY2023E earnings, we believe it has strong growth opportunities ahead, which have led to revision in our price target (PT) to Rs. 1,054. We retain our Buy rating on the stock.

Our Call

Valuation –Retain Buy with a revised PT of Rs. 1,054: TCI is expected to benefit from improving trade environment post easing of Covid-led restrictions. The company also has high-growth opportunities in transportation of Covid-19 vaccines in the near term due to its strong pan-India network and limited competition in the organised express industry. Over the longer term, the company is expected to benefit from improving infrastructure, national logistics policy, and GST. TCI is trading at 26.5x its FY2023E earnings, which is near its historical average multiple. However, considering high earnings growth levers, strong balance sheet, healthy cash generation capacity, and high return ratios, we believe there is further room for upside. Hence, we retain Buy on the stock with a revised PT of Rs. 1,054.

Key Risks

A sustained weak macroeconomic environment can lead to a downward revision in net earnings.

Valuation Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	1,032.0	894.7	1,045.5	1,212.7
OPM (%)	11.8	14.1	14.2	14.7
Adjusted PAT	89.1	90.8	105.9	126.1
% YoY growth	22.3	1.9	16.6	19.1
Adjusted EPS (Rs.)	23.3	23.7	27.6	32.9
P/E (x)	37.5	36.8	31.6	26.5
P/B (x)	9.7	8.1	6.7	5.6
EV/EBITDA (x)	27.8	26.7	22.7	19.0
RoNW (%)	29.5	24.5	23.7	23.4
RoCE (%)	27.7	23.5	22.9	22.7

Source: Company; Sharekhan estimates

Vaccine delivery – A huge opportunity

TCI is also looking forward for delivery of Covid vaccines domestically as it has over 800 branches and a strong reach of 40,000 touch points pan-India.Although, the government is yet to finalise on the delivery of vaccines, the company expects preference would be given to organised players (unorganised market share is 85%-90%), owing to their pan-India reach, financial and operational capabilities in efficiently handling such volumes. The company may work upon the outsourcing model for such transportation or through specialised temperature-controlled boxes in its own network. The transportation of vaccines provides huge opportunity for TCI, but the final print is yet to be decided by the government, which is expected by March 2021. The company has received LoIs from few states for transportation of vaccines. However, the company would evaluate profitability before venturing into the same.

Guidance for FY2021 and target for FY2025 retained

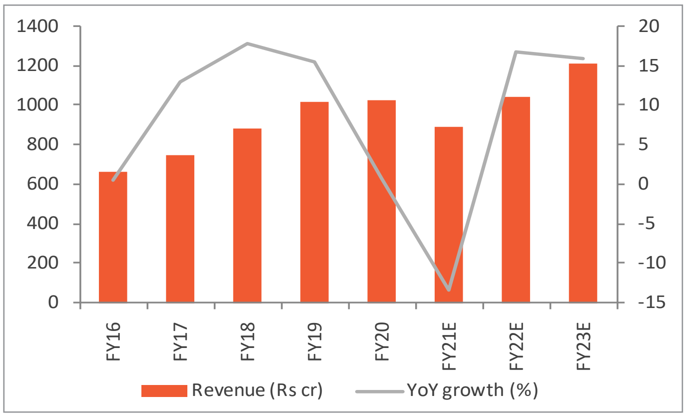
The company witnessed good demand during November 2020 till Diwali, although the same was sluggish thereafter due to Covid-related restrictions in Gujarat and Delhi. Hence, management expects to achieve single-digit growth for Q3; however, management has retained its guidance for FY2021 (10%-12% y-o-y decline in revenue affected by weak Q1, while OPM is likely to be better than FY2020), as it expects Q4FY2021 to be a strong quarter. TCI's longer-term guidance remained intact; management has guided for doubling of revenue and tripling of net profitability by FY2025. To achieve the same, the company had earmarked Rs. 400 crore capex for expansion of sorting centres, of which it is left with Rs. 355 crore to be spent over the next 2.5 years. The company's Pune (to increase from 50,000 square feet to 1.5 lakh square feet) and Gurgaon (size to increase from 50,000 to 2 lakh square feet) sorting centre expansions are on track and are expected to complete by Q3FY2021 and Q4FY2021, respectively. The company is also eyeing new locations for sorting centres at Chennai, Mumbai, Nagpur, and Indore. The expansion in sorting centres along with automation would aid in faster turnaround time for TCI, indirectly leading to capacity expansion.

Key Conference Call Takeaways -

- **Guidance:** Management has retained 10%-12% y-o-y decline in net revenue for FY2021, while margins are expected to be better than last year. The company targets to double its revenue by FY2025 and expects net profit to rise 3x.
- **November update:** The company saw good demand till Diwali in November. However, post Diwali, demand has become sluggish, owing to Covid-related stoppage of work in Gujarat and Delhi. Hence, management expects Q3FY2021 growth to be in single digit.
- **Sorting centre expansion:** The company's plan of increasing capacity of sorting centres at Gurgaon from 50,000 square feet to 2 lakh square feet and Pune from 50,000 square feet to 1.5 lakh square feet is on track to be completed by Q3FY2021 and Q4FY2021. The increase in capacity along with automation at sorting centres is expected to lead to faster turnaround time. It targets to reduce idle time from 12-15 hours to 6-9 hours, which would indirectly aid in doubling capacity.
- **Vaccine delivery:** The company expects the government to give preference of vaccine delivery to organised players (unorganised share is 85%-90%), which is likely by March 2021. The company would look at the outsourcing model for delivering vaccines. The company may deliver through ice boxes on its existing truck network. However, it is too early to say what kind of model would be implemented, but the company would do transportation only if it is profitable. The company has the ability to pick-up and deliver across 40,000 locations pan-India, which is expected to give an edge over others in the transportation of vaccine.
- **Benefit of rise in height of containerised trucks:** MORTH had increased the permissible height of containerised truck from 3.8m to 4m during July 2020. The company has 5,000 containerised trucks,of which ~2,000 (60:40 mix of 9tonne:14tonne) trucks cater to longer haul, 2,000 (4tonne to 9tonne) cater to branch to sorting centres, and 1,000 (less than 4tonne) cater to local deliveries. The company has already converted 50% of the long haul fleets to benefit from the new norms.
- **Fuel price pass through:** The SME segment comprises 50% of customer share where the company has total control on the fuel price, which is immediately passed through. For corporate clients, it is passed on with 15 days lag. Overall, the company is able to pass 85%-90% of the hike in fuel prices.

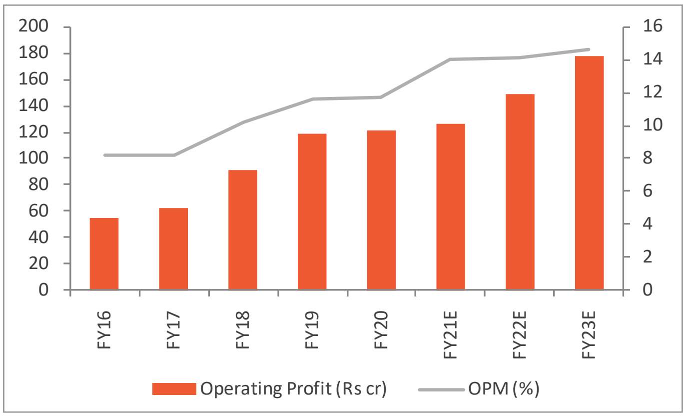
Financials in charts

Revenue trend



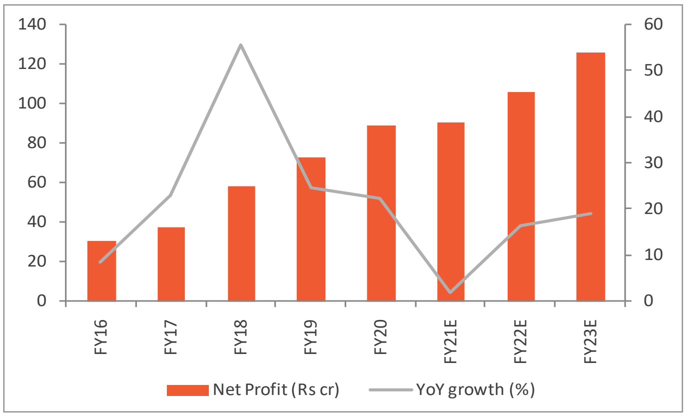
Source: Company, Sharekhan Research

Operating Profit trend



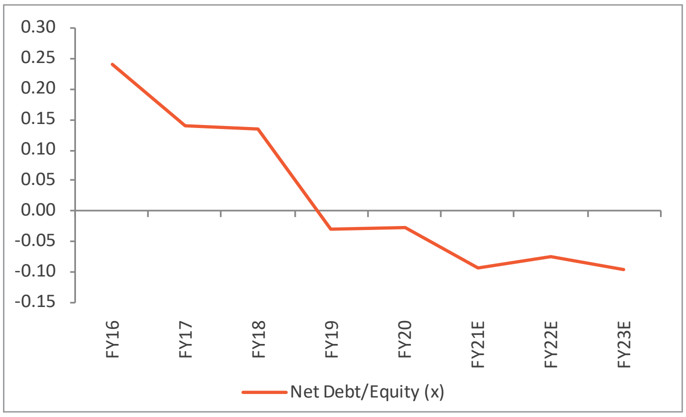
Source: Company, Sharekhan Research

PAT trend



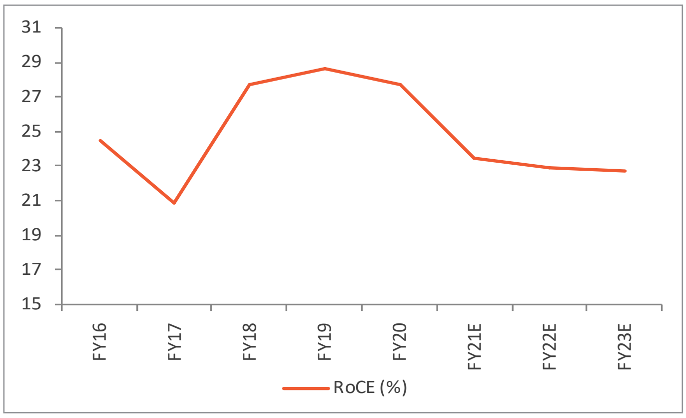
Source: Company, Sharekhan Research

Net Debt/Equity trend



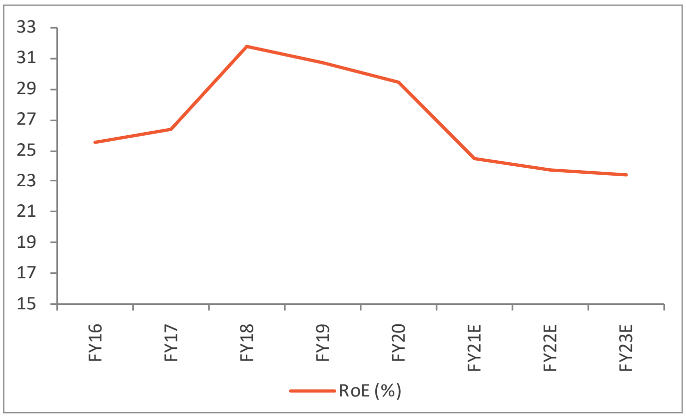
Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Pace of recovery to be gradual; Although 3PL companies are better placed

The logistics industry was severely hit by the COVID-19 pandemic, which affected the overall trade environment both domestically as well as globally. Though domestic indicators such as e-way bill generations, FASTag collections among others highlight toward an improvement m-o-m basis; the international EXIM environment is yet to show clear signs of revival. EXIM volumes continue to remain weak with frequent imbalance in trade. The competitive intensity remains high as many companies are going after weak volumes in the industry, putting pressure on profitability. Hence, we expect the pace of recovery in the logistics industry, especially in the EXIM business, to be gradual. However, the third-party logistics (3PL) industry has seen faster improvement in operations led by segments such as e-Commerce, pharma, and FMCG. Hence, within the logistics industry, 3PL companies are better placed.

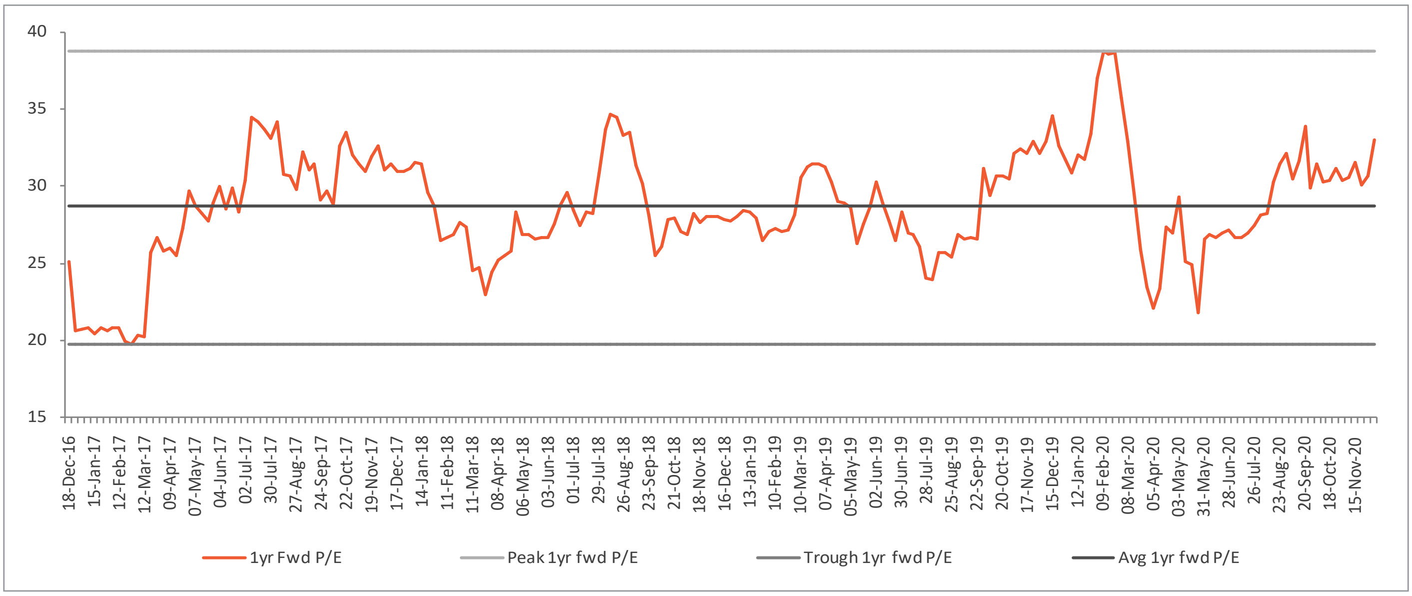
■ Company outlook - Expect strong H2FY2021

TCI expects H2FY2021 to be strong led by broad recovery being witnessed across major sectors and the upcoming festive season. OPM is expected to remain strong at 15%-16%, led by price hikes and cost-control measures. The company's reliance on the SME segment is expected to benefit as the segment has seen early recovery as against larger clients. Expansion of sorting centres broadly remains on track with two new centres expected to get completed in FY2021 and further new locations are currently explored. The company would be expending Rs. 355 crore over the next 2.5 years for expansion of its sorting centres. Overall, TCI is expected to witness improving growth trajectory from Q3FY2021.

■ Valuation - Retain Buy with a revised PT of Rs. 1,054

TCI is expected to benefit from improving trade environment post easing of Covid-led restrictions. The company also huge growth opportunity in transportation of Covid-19 vaccines in the near term due to its strong pan-India network and limited competition in the organised express industry. Over the longer term, the company is expected to benefit from improving infrastructure, national logistics policy, and GST. TCI is trading at 26.5x its FY2023E earnings, which is near its historical average multiple. However, considering high earnings growth levers, strong balance sheet, healthy cash generation capacity, and high return ratios, we believe there is further room for upside. Hence, we retain Buy on the stock with a revised PT of Rs. 1,054.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Mahindra Logistics	44.6	32.1	15.2	12.7	3.9	3.5	10.3	12.7
TCI Express	31.6	26.5	22.7	19.0	6.7	5.6	22.9	22.7
Gateway Distriparks	21.0	15.4	6.8	5.8	0.9	0.9	4.3	5.9

Source: Company, Sharekhan Research

About company

TCI is a leading time-definite express distributor, with a network of 700 offices covering more than 40,000 locations. The company commenced operations in 1997 and has over two decades of industry experience. The companydemerged from Transport Corporation of India in 2016 and was listed on December 15, 2016. The company offers services comprising surface, domestic and international air, e-commerce, priority,and reverse express services. TCI has over 3,000 plus workforce with 28 sorting centres. The company caters to sectors such as consumer electronics, retail, appareland lifestyle, automobile, pharmaceuticals, engineering, e-commerce, energy/power,and telecommunications.

Investment theme

TCI has over two decades of experience in the logistics business, catering to surface transport that fetches 86% of revenue. The logistics industry is estimated to be worth Rs. 300 billion (~12% of India's GDP) andis majorly serviced by the road network (~60%share). The road express industry is expected to grow at 12%-15%, twice that of GDP growth, during the next five years. TCI has a 5%value market share in the organised segment andis expected to be the biggest beneficiary in the industry, where the unorganised segment holds over 90% share.

Key Risks

- Weak macroeconomic environment, especially the manufacturing sector.
- Slowdown in SMEs as half of TCI's business comes from SMEs.
- Inability to increase market share from unorganised players in post GST era.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman & Director
Mr. Chander Agarwal	Managing Director
Mr. Pabitra Panda	CEO
Mr. Mukti Lal	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BHORUKA EXPRESS	44.38
2	Bhoruka Finance Corp of India Ltd	20.69
3	Bhoruka International Pvt Ltd	13.77
4	Agarwal Dharam Pal	10.22
5	TCI TRADING	6.47
6	TCI India Ltd	5.26
7	Canara Robeco Asset Management	3.11
8	TCI Global Logistics Ltd	3.00
9	Canara Robeco Mutual Fund	2.85
10	Chamaria Sushma	2.64

Source: Bloomberg

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