Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

TCI Express Limited

On a profitable journey

Logistics	Sharekhan code: TCIEXP	Company 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. 960**	
Price Target: **Rs. 1,150**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

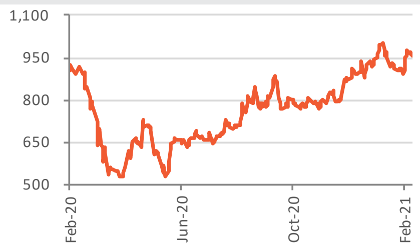
Company details

Market cap:	Rs. 3,688 cr
52-week high/low:	Rs. 1,024 / 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	2.2
DII	10.0
Others	21.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.5	21.9	33.1	6.3
Relative to Sensex	-8.6	4.2	-0.5	-18.2

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on TCI Express Limited (TCI) with a revised price target of Rs. 1150 factoring a rise in estimates and strong profitable growth path.
- OPM continued to outperform despite revenues being impacted by a weak November 2020.
- Expect revenue to improve as manufacturing activity picks up. Long-term guidance of doubling revenues and tripling net profit over four years remains intact.
- Pune and Gurgaon sorting centres to begin operations in Q4FY2021 and Q1FY2022, respectively. Company eyeing newer locations in Chennai, Mumbai, Nagpur and Indore.

TCI Express Limited (TCI) continued to surprise in terms of operational profitability despite revenues lagging expectations, owing to weakness in economic activity in key sectors in November 2020. Revenues declined by 2.2% y-o-y to Rs. 262.5 crore led by lower volumes (down 4.4% y-o-y) which was partially offset by a ~2% price hike. Although the quarter started on good note with a pick-up in demand in October 2020, sectors such as pharmaceuticals, textiles and machinery & equipment weakened in November which led to a lower-than-expected topline for Q3FY21. However, OPM rose strongly (up 449bps y-o-y) to 17.3% which was lead by improvement in gross margins (up 299 bps y-o-y to 32.3%), lower employee costs (down 8% y-o-y) and other expense (down 16% y-o-y). Consequently, operating profit surged 32.2% y-o-y to Rs. 45 crore and net profit by 31.6% y-o-y to Rs. 33.6 crore which were better than estimates. While January 2021 was same as last year, February 2021looks better. The management is optimistic that manufacturing sector pick up will aid in demand revival for the company. The company retained its long-term guidance of doubling revenues and tripling net profit over four years. The company expects to double net profits next year. It expects gross margins to further improve upon from 32% currently to 35% over a longer term. It has built a sustainable platform for cost savings which should further aid in OPM expansion. On the sorting centre expansion, its Pune centre is expected to start operations from Q4FY2021, while the Gurgaon centre would begin in Q1FY2022. Out of the Rs. 400-crore capex envisaged for sorting centre expansion, it is left with Rs. 240 crore to be spent which would majorly be spent on sorting centres in Chennai, Nagpur and Indore. It is also in the process of buying land in Mumbai and Kolkata for future sorting centres. The company generated Rs. 85 crore of operating cash flows during 9MFY2021. We have revised upwardly our estimates for FY2021-FY2023E factoring higher gross and operating margins. 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 and a healthy cash flow-generation capacity and high return ratios. Hence, we retain Buy with a revised price target of Rs. 1,150.

Key positives

- Strong expansion in gross and operating margins
- Expect margins to further improve with sustainable levers.

Key negatives

- Revenues lagged estimates due to muted economic activities in November 2020.

Our Call

Valuation – Retain Buy with a revised price target of Rs. 1,150: TCI is expected to benefit from a broad-based recovery across major user industries. The company has been able to improve upon its gross margins and is further expected to rise. The company's expansion plans of sorting centres remains largely on track which would further aid in higher volumes and operational profitability. It continues to deepen its presence with the target of doubling number of branches in 3-4 years. We have raised our estimates for FY2021-FY2023E factoring higher gross and operating margins. We expect the company to capitalize on improving infrastructure, national logistics policy, and GST to revive its revenue growth trajectory going ahead. Further, TCI has a strong balance sheet and a healthy cash flow-generation capacity, and high return ratios. Hence, we retain a Buy with a revised price target of Rs. 1,150.

Key Risks

A sustained weak macro-economic environment can lead to a downward revision in net earnings.

Valuation Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	1,032.0	852.6	996.3	1,155.7
OPM (%)	11.8	15.3	16.4	17.1
Adjusted PAT	89.1	94.8	118.8	143.3
% YoY growth	*22.3*	*6.4*	*25.3*	*20.7*
Adjusted EPS (Rs.)	23.3	24.8	31.0	37.4
P/E (x)	41.2	38.8	30.9	25.6
P/B (x)	10.7	8.8	7.2	5.8
EV/EBITDA (x)	30.5	28.4	22.6	18.7
RoNW (%)	29.5	25.4	26.0	25.4
RoCE (%)	27.7	24.2	24.9	24.3

Source: Company; Sharekhan estimates

Strong beat on OPM continues

Revenues declined by 2.2% y-o-y to Rs. 262.5 crore led by lower volumes (down 4.4% y-o-y) which was partially offset by a ~2% price hike. Although the quarter started on good note with a pick-up in demand in October 2020, sectors such as pharmaceuticals, textiles and machinery & equipment weakened in November which led to a lower-than-expected topline for Q3FY21. However, OPM rose strongly (up 449bps y-o-y) to 17.3% which was lead by improvement in gross margins (up 299 bps y-o-y to 32.3%), lower employee costs (down 8% y-o-y) and other expense (down 16% y-o-y). Consequently, operating profit surged 32.2% y-o-y to Rs. 45 crore and net profit by 31.6% y-o-y to Rs. 33.6 crore which were better than estimates.

Expect demand revival; Sorting centre expansion on track

The management is optimistic that manufacturing sector pick up will aid in demand revival for the company. The company retained its long-term guidance of doubling revenues and tripling net profit over four years. The company expects to double net profits next year and expects gross margins to further improve upon from 32% currently to 35%. It has built a sustainable platform for cost savings which should further aid in OPM expansion. On the sorting centre expansion, its Pune centre is expected to start operations from Q4FY2021, while the Gurgaon centre would begin in Q1FY2022. Out of the Rs. 400-crore capex envisaged for sorting centre expansion, it is left with Rs. 240 crore to be spent which would majorly be spent on sorting centres in Chennai, Nagpur and Indore. It is also in the process of buying land in Mumbai and Kolkata for future sorting centres. The company generated Rs. 85 crore of operating cash flows during 9MFY2021.

Key result highlights from Concall

- **Lower topline growth in Q3:** The company witnessed a sequential recovery in October 2020 with economic activities picking up. However, November witnessed a m-o-m contraction in IIP for key sectors like coal, machinery. E-way bill generation too declined during the month. Sectors such as machinery tools, pharma, auto parts did well while textile sector was laggard. The volume during Q3FY2021 was 2.15 lakh tone versus 2.25 lakh in Q3FY2020. The volume during 9MFY2021 was 4.6 lakh tonnes versus 6.75 lakh tone in 9MFY2020. It took ~2% price hike during Q3FY21.

- **Long-term guidance:** The company expects to double revenue and triple profitability over four years. Next year it is expecting to double the profits. The gross margin at 32% is targeted to increase to 35%.

- **Q4 outlook:** January 2021 was same as last year, while February looks better y-o-y. Once manufacturing sector picks up, growth will pick up.

- **Higher OPM:** The company continued with its cost-control measures. There was also higher capacity utilization during the quarter. It has created platform for sustaining cost savings going ahead. It did salary increments from October. Employee costs are expected to remain same in Q4 although during FY2022, it may increase 2-3%.

- **Capex:** The company did capex of Rs. 15 crore in Q3 and Rs. 41 crore in 9MFY2021. Out of the Rs. 400-crore capex envisaged for sorting centre expansion, Rs. 240 crore is left to be spent. It would be incurring Rs. 70 crore in automation and construction on Pune and Gurgaon. The remaining Rs. 175 crore would be spent in Chennai, Nagpur and Indore sorting centres. The company is also in the process of buying land in Mumbai and Kolkata for sorting centres.

- **Sorting centre:** The Pune sorting centre will be operational from Q4FY2021 and Gurgaon by Q1FY2022. Pune sorting centre has 1.5 lakh square feet space. It had incurred Rs. 25 crore towards construction and Rs. 15-20 crore towards automation. It has 28 sorting centres out of which 8 are owned. It wants to convert 7 to 8 sorting centres from leased to owned ones.

- **Truck fill factor:** The truck fill factor was 86% in Q3FY2021 versus 85.5% in Q2FY2021 and 85% in Q3FY2020. The vehicle loading capacity has been increased in 45-47% of the fleet. A higher truck load is estimated to have contributed to a 1% rise in gross margins.

- The company generated Rs. 85 crore cash flow in 9MFY2021.

- SME clients comprise 52% and corporates 48% in terms of value.

- Covid vaccine distribution is under government control. The company is working with government and doing it in South India.
- The SME segment clocked 20-25% higher margins than corporate clientele.
- The company is not focused on B2C business and hence did better. It would not like to venture into the third-party logistics (3PL) segment as it is a low margin business.
- Air express comprises (8%), e-Commerce (4%) while the balance is held by Surface Express.
- The company launched ESG profile on its website.

Results Rs cr

Particulars	Q3FY2021	Q3FY2020	Y-o-Y %	Q2FY2021	Q-o-Q %
Net sales	262.5	268.4	-2.2%	213.0	23.3%
Other income	1.7	0.9	93.0%	1.5	13.7%
Total income	264.2	269.2	-1.9%	214.4	23.2%
Total expenses	217.2	234.1	-7.2%	180.4	20.4%
Operating profit	45.3	34.3	32.2%	32.6	39.3%
Depreciation	2.2	2.1	1.9%	2.2	0.0%
Interest	0.2	0.2	6.7%	0.3	-48.4%
Profit Before Tax	44.7	32.9	35.9%	31.5	41.6%
Taxes	11.1	7.4	50.5%	8.1	37.4%
PAT	33.6	25.5	31.6%	23.5	43.1%
Adjusted PAT	33.6	25.5	31.6%	23.5	43.1%
EPS (Rs.)	8.8	6.7	31.6%	6.1	43.1%
			BPS		**BPS**
OPM (%)	17.3%	12.8%	449	15.3%	198
NPM (%)	12.8%	9.5%	329	11.0%	177
Tax rate (%)	24.8%	22.4%	241	25.5%	-76

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Pace of recovery to be gradual; although 3PL companies better placed

The logistics industry had been severely hit by the COVID-19 pandemic that affected overall trade environment both domestically as well as globally. Though domestic indicators like e-way bill generations, FASTag collections among others highlight toward an improvement m-o-m, the 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 like e-Commerce, Pharma and FMCG. Hence, within the logistics industry, 3PL companies are better placed.

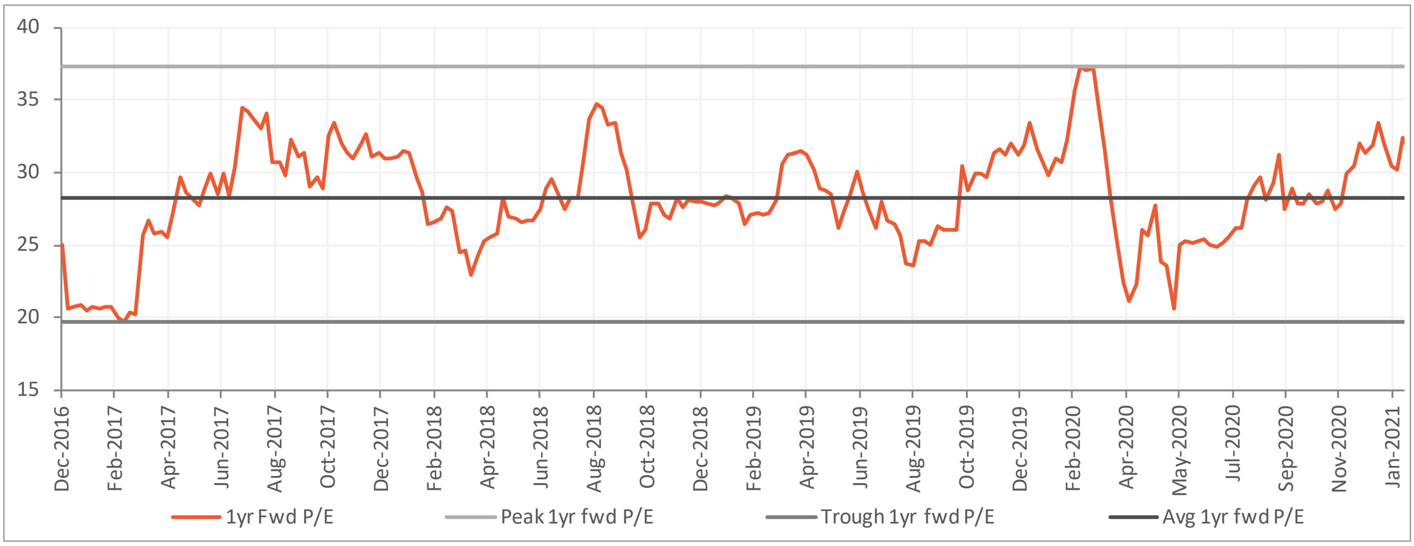
■ Company outlook – Expect strong H2FY2021

The management is optimistic that a pick-up in the manufacturing sector will aid demand revival for the company. The company retained its long term guidance of doubling revenues and tripling net profit over four years. The company expects to double net profit next year. It expects gross margins to further improve upon from 32% currently to 35% eventually. It has built a sustainable platform for cost-savings which should further aid in OPM expansion. TCI is expected to benefit from a broad-based recovery across major user industries. The company's expansion plans of sorting centres remains largely on track which would further aid in higher volumes and operational profitability. It continues to deepen its presence with a target of doubling number of branches over 3-4 years.

■ Valuation - Retain Buy with a revised price target of Rs. 1150

TCI is expected to benefit from a broad-based recovery across major user industries. The company has been able to improve upon its gross margins and is further expected to rise. The company's expansion plans of sorting centres remains largely on track which would further aid in higher volumes and operational profitability. It continues to deepen its presence with the target of doubling number of branches in 3-4 years. We have raised our estimates for FY2021-FY2023E factoring higher gross and operating margins. We expect the company to capitalize on improving infrastructure, national logistics policy, and GST to revive its revenue growth trajectory going ahead. Further, TCI has a strong balance sheet and a healthy cash flow-generation capacity, and high return ratios. Hence, we retain a Buy with a revised price target of Rs. 1,150.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Mahindra Logistics	52.6	39.6	17.9	14.8	4.9	4.4	11.0	12.9
TCI Express	30.9	25.6	22.6	18.7	7.2	5.8	26.0	25.4
Gateway Distriparks	24.1	18.4	8.6	7.4	1.4	1.4	5.8	7.5

Source: 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 company demerged 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, apparel and 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) and 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 and is expected to be the biggest beneficiary in the industry, where the unorganised segment holds an 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 Website

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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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