

Strong QoQ recovery along with record margins...

TCI Express' (TCIEL) revenue saw strong sequential improvement in revenues (although YoY still not normalised). MoM also the momentum remained on a positive trajectory, brought about by a broad-based recovery across sectors. EBITDA margins expanded 1300 bps QoQ (389 bps YoY) to 15.3% mainly due to cost control measures employed by the company, which is evident in lower employee, other expenses and higher gross margins. Subsequently, absolute EBITDA came in at ₹ 33 crore vs. ₹ 2 crore in Q1FY21 and ₹ 31 crore in Q2FY20. Buoyed by the strong operating performance, PAT came in at ₹ 24 crore vs ₹ 1 crore in Q1FY21 and ₹ 26 crore in Q2FY20 (YoY de-growth due to lower tax rate in the base quarter).

Festive season expected to propel revenues in H2FY21

Business activity, which gained momentum from May, saw phase wise pick-up in manufacturing & related supply chain activities. With further easing of restrictions, the momentum stayed on the positive trajectory MoM. As per management, volumes have normalised in September (also confirmed by E-Way bill generation). The management expects economic growth to grow in the positive territory in H2FY21 (channel filling amid festivities). Revival of SME sector remains key to TCI Express' fortunes. It is expected to tide over the current volatility by continued automation, enhancing technological capabilities and reducing field footprints. We expect the company to report a revival in revenue growth from FY22 driven by new branch additions & expansion of clients in SME segment. The company reported record EBITDA margins (15%+), in spite of weak operating leverage, as the management employed cost control measures and continued to pick up only profitable sales. We expect margins to remain strong, going ahead.

Construction of new sorting centres delayed to year end

During H1, the company incurred capex of ₹ 26 crore. The capex was primarily for two new sorting centres at Gurgaon, Pune and IT systems (has 28 sorting centres). The company also opened 10 new branches during the quarter (has around 800 offices pan-India). Overall, TCIEL has maintained a capex guidance of ₹ 400 crore in five years (of which ₹ 145 crore has already been spent in the last 3.5 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.

Valuation & Outlook

The management's singular focus on carrying profitable shipments in the B2B segment along the surface route, has consistently led to stable operational performance, even amid lower volumes scenario (as seen in H1). Low leverage, a robust growth trajectory and high core return ratios (FY22E RoCE at 28%, healthy FCF yield), position TCIEL as one of the preferred picks in the logistics space. We value TCIEL at 33x P/E with a target price of ₹ 900 and maintain our **BUY** recommendation.

Key Financial Summary

| (Year-end March) | FY18 | FY19 | FY20 | FY21E | FY22E | CAGR |
|------------------------------|-------|---------|---------|-------|---------|------|
| Revenues (₹crore) | 885.1 | 1,023.8 | 1,032.0 | 866.8 | 1,040.2 | 0.4 |
| EBITDA (₹crore) | 90.7 | 119.0 | 121.3 | 117.0 | 140.4 | 7.6 |
| Adjusted Net Profit (₹crore) | 58.4 | 72.9 | 89.1 | 85.8 | 104.5 | 8.3 |
| EPS (₹) | 15.2 | 19.0 | 23.3 | 22.4 | 27.3 | 8.3 |
| P/E (x) | 50.2 | 40.2 | 32.9 | 34.1 | 28.0 | |
| Price / Book (x) | 14.2 | 11.0 | 8.7 | 7.2 | 5.9 | |
| EV/EBITDA (x) | 32.6 | 24.5 | 24.1 | 24.8 | 20.6 | |

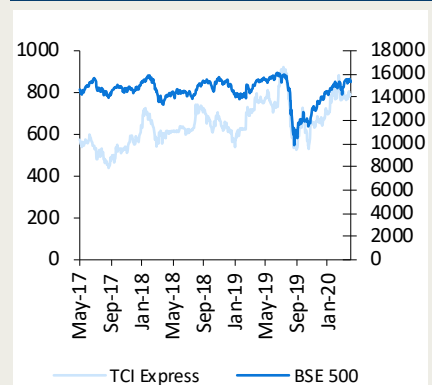
Source: Company, ICICI Direct Research



Particulars

| Particular | Amount |
|-----------------------------|---------|
| Market Capitalization (₹Cr) | 2,928.3 |
| Total Debt (FY 20) (₹Cr) | 2.8 |
| Cash (FY 20) (₹Cr) | 12.9 |
| EV (₹Cr) | 2,918.2 |
| 52 week H/L | 949/456 |
| Equity capital (₹Cr) | 3.8 |
| Face value (₹) | 2.0 |

Price Performance



Research Analyst

| (in %) | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|----------|--------|--------|--------|--------|
| Promoter | 66.9 | 66.9 | 66.9 | 66.8 |
| FII | 3.5 | 2.7 | 2.1 | 2.1 |
| DII | 5.4 | 6.7 | 8.1 | 9.7 |
| Others | 24.2 | 23.7 | 22.9 | 21.4 |

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Exhibit 1: Variance Analysis

| | Q2FY21 | Q2FY21E | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) | Comments |
|-----------------------|--------|---------|--------|---------|--------|----------|--|
| Revenue | 213.0 | 256.0 | 269.5 | -21.0 | 88.7 | 140.0 | YoY de-growth mainly due to to adverse impact of nationwide restrictions due to Covid-19 crisis, QoQ sequential improvement due to broad based recovery across all sectors |
| Operating expenses | 144.4 | 181.8 | 192.8 | -25.1 | 57.8 | 149.8 | |
| Employee Expenses | 22.1 | 25.6 | 26.3 | -16.2 | 18.7 | 17.8 | |
| Other Expense | 13.9 | 20.5 | 19.6 | -29.1 | 10.2 | 36.7 | |
| Total Expense | 180.4 | 227.8 | 238.8 | -24.4 | 86.7 | 108.0 | |
| EBITDA | 32.6 | 28.2 | 30.7 | 6.0 | 2.0 | NA | |
| EBITDA Margin (%) | 15.3 | 11.0 | 11.4 | 389 bps | 2.3 | 1300 bps | Margins positively impacted mainly due to cost control measures in operating, employee and other expenses |
| Depreciation | 2.2 | 2.1 | 1.8 | 17.9 | 2.1 | 2.4 | |
| Interest | 0.3 | 0.2 | 0.3 | 24.0 | 0.1 | 158.3 | |
| Other Income | 1.5 | 1.3 | 1.6 | -9.3 | 1.5 | -0.7 | |
| Exceptional Gain/Loss | 0.0 | 0.0 | 0.0 | NA | 0.0 | NA | |
| PBT | 31.5 | 27.2 | 30.2 | 4.3 | 1.3 | NA | |
| Total Tax | 8.1 | 6.9 | 4.1 | 94.9 | 0.3 | NA | |
| PAT | 23.5 | 20.3 | 26.1 | -10.0 | 0.9 | NA | |

Source: ICICI Direct Research

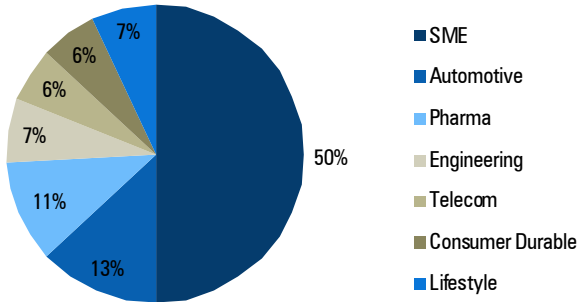
Exhibit 2: Change in estimates

| ₹ Crore) | FY21E | | | | | FY22E | | | Comments |
|-------------------|---------|---------|-------|-------|----------|---------|---------|----------|--|
| | FY19 | FY20 | Old | New | % Change | Old | New | % Change | |
| Gross Revenue | 1,023.8 | 1,032.0 | 990.7 | 866.8 | -12.5 | 1,169.0 | 1,040.2 | -11.0 | Revenue estimates revised downwards due to extended uncertainty due to Covid-19 crisis |
| EBITDA | 119.0 | 121.3 | 104.0 | 117.0 | 12.5 | 142.6 | 140.4 | -1.5 | |
| EBITDA Margin (%) | 11.6 | 11.8 | 10.5 | 13.5 | 300 bps | 12.2 | 13.5 | 130 bps | Margins revised upwards due to cost control measures employed by the company |
| PAT | 72.9 | 89.1 | 75.5 | 85.8 | 13.7 | 105.5 | 104.5 | -0.9 | |
| EPS (₹) | 19.0 | 23.3 | 19.7 | 22.4 | 13.7 | 27.6 | 27.3 | -0.9 | FY22E EPS largely unchanged |

Source: Company, ICICI Direct Research

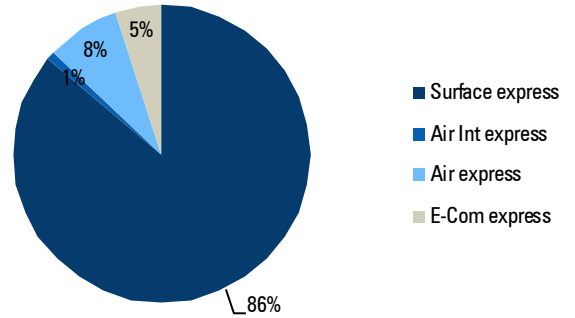
Key Metrics

Exhibit 3: Industry verticals



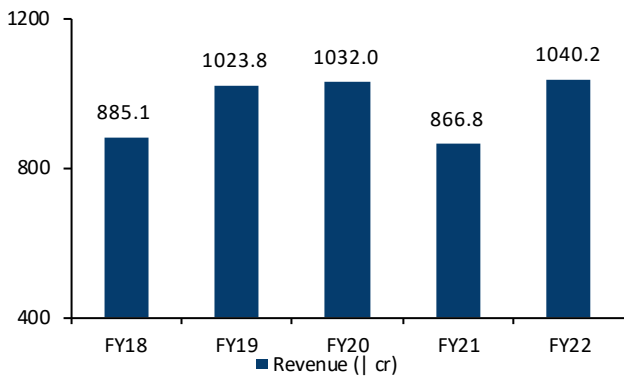
Source: ICICI Direct Research, Company

Exhibit 4: Products segment



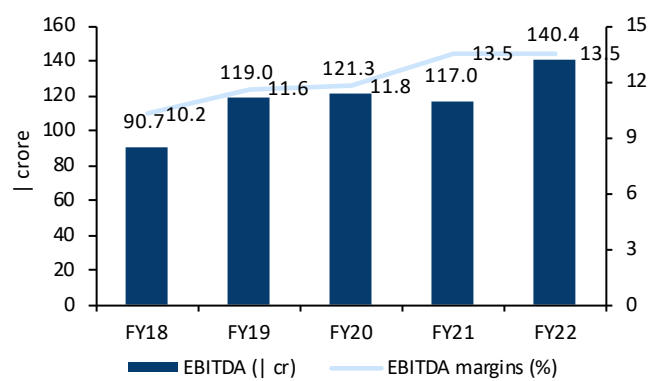
Source: ICICI Direct Research, Company

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



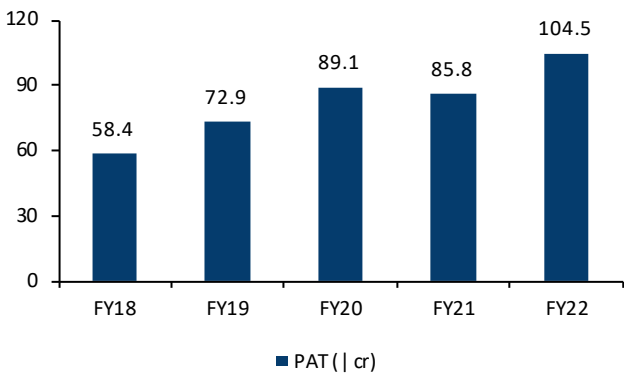
Source: ICICI Direct Research, Company

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



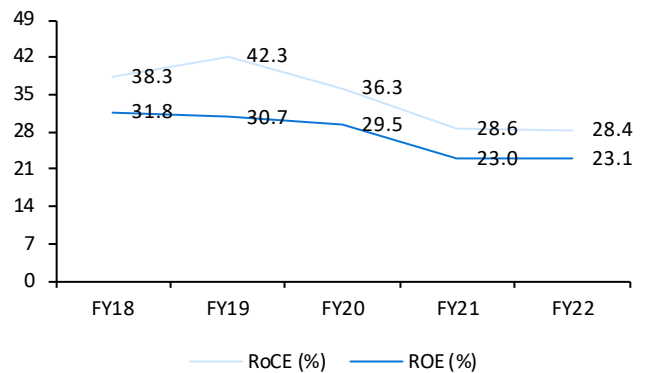
Source: ICICI Direct Research, Company

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 | 50.2 | 32.6 | 31.8 | 38.3 |
| FY 19 | 1023.8 | 15.7 | 19.0 | 24.8 | 40.2 | 24.5 | 30.7 | 42.3 |
| FY 20 | 1032.0 | 0.8 | 23.3 | 22.3 | 32.9 | 24.1 | 29.5 | 36.3 |
| FY 21E | 866.8 | -16.0 | 22.4 | -3.7 | 34.1 | 7.2 | 36.3 | 28.6 |
| FY 22E | 1040.2 | 20.0 | 27.3 | 21.8 | 28.0 | 5.9 | 28.4 | 28.4 |

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit & Loss Statement

₹ crore

| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
|------------------------|---------|---------|--------|---------|
| Total operating Income | 1,023.8 | 1,032.0 | 866.8 | 1,040.2 |
| Growth (%) | 15.7 | 0.8 | (16.0) | 20.0 |
| Operating expenses | 753.4 | 734.2 | 611.1 | 738.6 |
| Employee Cost | 85.9 | 101.8 | 82.4 | 93.6 |
| Other expenses | 65.6 | 74.7 | 56.3 | 67.6 |
| Total Expenses | 904.8 | 910.7 | 749.8 | 899.8 |
| EBITDA | 119.0 | 121.3 | 117.0 | 140.4 |
| Growth (%) | 31.3 | 1.9 | (3.5) | 20.0 |
| Depreciation | 6.5 | 7.8 | 8.8 | 10.5 |
| EBIT | 112.5 | 113.5 | 108.2 | 129.9 |
| Interest | 3.8 | 0.9 | 0.1 | 0.1 |
| Other Income | 3.2 | 4.4 | 6.6 | 9.8 |
| PBT | 111.9 | 117.0 | 114.7 | 139.7 |
| Growth (%) | 33.6 | 4.6 | (2.0) | 21.8 |
| Tax | 39.0 | 27.9 | 28.9 | 35.2 |
| Reported PAT | 72.9 | 89.1 | 85.8 | 104.5 |
| Exceptional Items | - | - | - | - |
| Adjusted PAT | 72.9 | 89.1 | 85.8 | 104.5 |
| Growth (%) | 24.7 | 22.3 | (3.7) | 21.8 |
| EPS | 19.0 | 23.3 | 22.4 | 27.3 |

Source: ICICI Direct Research

Exhibit 11: Cash flow Statement

₹ crore

| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
|---------------------------|--------|--------|--------|--------|
| Profit after Tax | 72.9 | 89.1 | 85.8 | 104.5 |
| Less: Dividend Paid | (3.8) | (0.9) | (0.1) | (0.1) |
| Add: Depreciation | 6.5 | 7.8 | 8.8 | 10.5 |
| Add: Others | - | - | - | - |
| Cash Profit | 83.2 | 97.8 | 94.7 | 115.1 |
| Increase/(Decrease) in I | 4.6 | (10.4) | (3.4) | 15.3 |
| (Increase)/Decrease in I | (10.2) | (3.3) | 33.8 | (27.7) |
| CF from Operating Activ | 72.5 | 53.1 | 122.9 | 100.4 |
| (Add) / Dec in Fixed Ass | (19.2) | (27.3) | (57.8) | (63.2) |
| 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) | (27.6) | (87.8) | (83.2) |
| Inc/(Dec) in Loan Funds | (31.1) | (5.8) | (1.7) | (0.5) |
| 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) | (15.8) |
| Change in cash Eq. | 4.9 | (4.2) | 18.0 | 1.4 |
| Op. Cash and cash Eq. | 12.2 | 17.1 | 12.9 | 30.9 |
| Cl. Cash and cash Eq. | 17.1 | 12.9 | 30.9 | 32.3 |

Source: ICICI Direct Research

| Exhibit 12: Balance Sheet | | | | |
|-----------------------------|---------|-------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Source of Funds | | | | |
| Equity Capital | 7.7 | 7.7 | 7.7 | 7.7 |
| Reserves & Surplus | 259.5 | 329.6 | 400.1 | 489.3 |
| Shareholder's Fund | 267.2 | 337.3 | 407.8 | 497.0 |
| Secured Loan | 0.5 | 0.5 | 0.5 | 0.3 |
| Unsecured Loan | 46.4 | 11.4 | 0.6 | 0.3 |
| Total Loan Funds | 8.7 | 2.8 | 1.1 | 0.6 |
| 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 | 413.2 | 502.0 |
| Application of Funds | | | | |
| Gross Block | 194.6 | 208.8 | 258.8 | 308.8 |
| Less: Acc. Depreciatic | 23.0 | 27.5 | 36.3 | 46.8 |
| Net Block | 171.6 | 181.3 | 222.5 | 262.0 |
| Capital WIP | 1.4 | 11.1 | 18.9 | 32.1 |
| Total Fixed Assets | 172.9 | 192.4 | 241.4 | 294.1 |
| Intangibles | 1.5 | 2.2 | 2.2 | 2.2 |
| Investments | 1.3 | 0.9 | 30.9 | 50.9 |
| Debtors | 163.1 | 165.8 | 130.6 | 156.7 |
| Cash | 17.1 | 12.9 | 30.9 | 32.3 |
| Current Investments | - | 28.6 | 30.0 | 31.5 |
| Loan & Advance, Othe | 21.8 | 24.9 | 27.0 | 29.5 |
| Total Current assets | 202.0 | 203.5 | 188.6 | 218.5 |
| Creditors | 72.3 | 62.0 | 55.3 | 66.8 |
| 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 | 83.8 | 99.1 |
| Net Working Capital | 104.5 | 116.4 | 104.8 | 119.4 |
| Miscellaneous expens | - | - | - | - |
| Application of Funds | 281.4 | 344.3 | 413.2 | 502.0 |

Source: ICICI Direct Research

| Exhibit 13: Key Ratios | | | | |
|---|------|-------|-------|---------|
| (Year-end March) | FY19 | FY20 | FY21E | FY22E |
| Per share data (₹) | | | | |
| Book Value | 69.8 | 88.1 | 106.5 | 129.8 |
| EPS | 19.0 | 23.3 | 22.4 | 27.3 |
| Cash EPS | 20.7 | 25.3 | 24.7 | 30.1 |
| DPS | 3.0 | 4.0 | 4.0 | 4.0 |
| Profitability & Operating Ratios | | | | |
| EBITDA Margin (%) | 11.6 | 11.8 | 13.5 | 13.5 |
| PAT Margin (%) | 7.1 | 8.6 | 9.9 | 10.0 |
| Fixed Asset Turnover (x) | 3.7 | 3.0 | 2.1 | 2.1 |
| 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 | 23.0 | 23.1 |
| RoCE | 42.3 | 36.3 | 28.6 | 28.4 |
| RoIC | 26.4 | 26.2 | 21.0 | 21.0 |
| Valuation Ratios (x) | | | | |
| P/E | 40.2 | 32.9 | 34.1 | 28.0 |
| Price to Book Value | 11.0 | 8.7 | 7.2 | 5.9 |
| EV/EBITDA | 24.5 | 24.1 | 24.8 | 20.6 |
| EV/Sales | 2.9 | 2.8 | 3.3 | 2.8 |
| Leverage & Solvency Ratios | | | | |
| Debt to equity (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Coverage (x) | 29.8 | 126.1 | 983.9 | 2,165.5 |
| 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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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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