

## Highest ever margins lift profitability...

TCI Express (TCIEL) continued its strong QoQ momentum in topline (up 23%) and bottomline (up 43%) while it lagged in YoY revenue comparable (flat YoY). However, due to significant margin expansion, TCI Express posted healthy growth (up 32%) on the YoY profitability front. MoM the performance remained mixed as recovery during the month of October (led by festive season) saw contraction of core industries in November. EBITDA margins expanded 449 bps YoY (198 bps YoY) to 17.3% 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 grew 32% YoY (39% QoQ) to ₹ 45 crore. Buoyed by the strong operating performance, PAT grew 32% to ₹ 34 crore (43% QoQ).

## Revenue performance expected to strengthen, going ahead

Mixed topline performance during the quarter was rescued by expansion on the margins front, as the management employed cost control measures and continued to pick up on profitable sales. While TCI Express continues to surprise us on the profitability front (at a time when, competitive intensity in the sector is high), revenues are expected to catch the momentum in the next few quarters (driven by new branch additions and expansion of existing client business). With 95% of revenue contribution coming from the B2B segment (majority from the MSME and SME sector), revival of SME, MSME 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.

## Capex spend remains on track

In 9MFY21, TCIEL incurred capex of ₹ 41 crore. Capex was primarily for two new sorting centres at Gurgaon, Pune (to commence operations in Q4) and IT systems (has 28 sorting centres). The company also opened 10 new branches during the quarter (has 800+ offices pan-India). Overall, TCIEL has maintained a capex guidance of ₹ 400 crore in five years (of which ₹ 160 crore has already been spent in the last 3.75 years), which is lower than the expected run rate owing to a delay in getting regulatory approvals for expansion of planned sorting centres and current uncertain environment.

## Valuation & Outlook

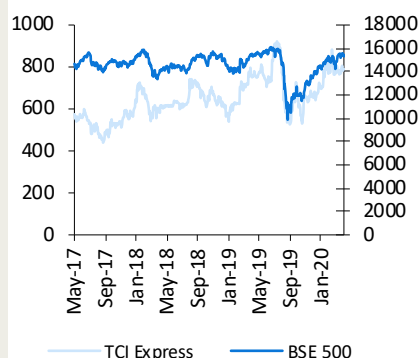
In spite of the hiccups in the near term (strong B2C performance positively impacted other players), the company's focus on building its moat in the B2B segment, bodes well for continued profitable growth in the longer run. TCI Express has a diversified customer base across industry verticals. With the expansion of owned branches along Metro and tier 1 cities, this helps TCI Express in having control over user experience and providing value added services to clients. We value TCIEL at 33x P/E with a target price of ₹ 1150 (earlier price ₹ 900). We maintain our **BUY** recommendation.



### Particulars

Particular	Amount
Market Capitalization (₹ Cr)	3,636.5
Total Debt (FY20) (₹ Cr)	2.8
Cash (FY20) (₹ Cr)	12.9
EV (₹ Cr)	3,626.4
52 week H/L	949/456
Equity capital (₹ Cr)	3.8
Face value (₹)	2.0

### Price Performance



### Key risks to our call

- 1) Longer than expected recovery in MSME sector
- 2) Rising competitive intensity in the B2B segment

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR
Revenues (₹ crore)	1,023.8	1,032.0	825.6	1,073.2	1,266.4	5.5
EBITDA (₹ crore)	119.0	121.3	119.7	171.7	206.4	14.8
Adjusted Net Profit (₹ crore)	72.9	89.1	87.8	128.7	157.4	21.2
EPS (₹)	19.0	23.3	22.9	33.6	41.1	
P/E (x)	49.9	40.8	41.4	28.3	23.1	
Price / Book (x)	13.6	10.8	8.9	7.0	5.5	
EV/EBITDA (x)	30.5	29.9	30.1	20.9	17.1	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	262.5	281.8	268.4	-2.2	213.0	23.3	YoY muted performance due to weakness following November in core sectors
Operating expenses	177.6	197.3	189.6	-6.3	144.4	23.0	
Employee Expenses	23.3	24.0	25.1	-7.5	22.1	5.4	
Other Expense	16.3	19.7	19.4	-15.7	13.9	17.4	
Total Expense	217.2	240.9	234.1	-7.2	180.4	20.4	Margins positively impacted mainly due to cost control measures in operating, employee and other expenses
EBITDA	45.3	40.9	34.3	32.2	32.6	39.3	
EBITDA Margin (%)	17.3	14.5	12.8	449 bps	15.3	198 bps	
Depreciation	2.2	2.1	2.1	1.9	2.2	0.0	
Interest	0.2	0.2	0.2	6.7	0.3	-48.4	
Other Income	1.7	1.5	0.9	93.0	1.5	13.7	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	44.7	40.0	32.9	35.9	31.5	41.6	
Total Tax	11.1	10.1	7.4	50.5	8.1	37.4	
PAT	33.6	29.9	25.5	31.6	23.5	43.1	

Source: ICICI Direct Research

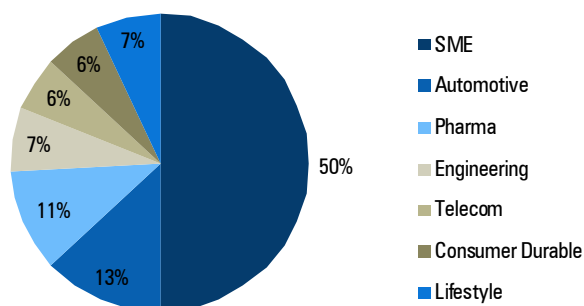
**Exhibit 2: Change in estimates**

	FY21E				FY22E			FY23E	Comments
(₹ Crore)	FY20	Old	New	% Change	Old	New	% Change	Introduced	
Gross Revenue	1,032.0	866.8	825.6	-4.8	1,040.2	1,073.2	3.2	1,266.4	Revenues estimated largely remain unchanged
EBITDA	121.3	117.0	119.7	2.3	140.4	171.7	22.3	206.4	
EBITDA Margin (%)	11.8	13.5	14.5	100 bps	13.5	16.0	250 bps	16.3	Margins revised upwards due to cost control measures employed by company
PAT	89.1	85.8	87.8	2.3	104.5	128.7	23.1	157.4	
EPS (₹)	23.3	22.4	22.9	2.3	27.3	33.6	23.1	41.1	

Source: Company, ICICI Direct Research

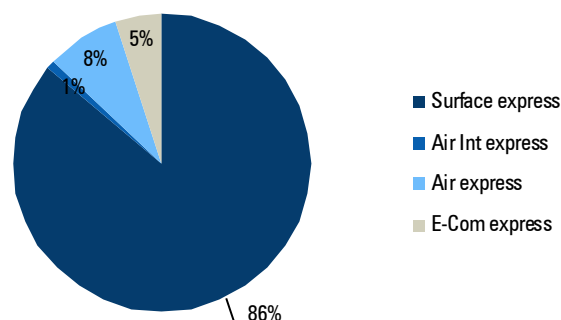
## Key Metrics

Exhibit 3: Industry verticals



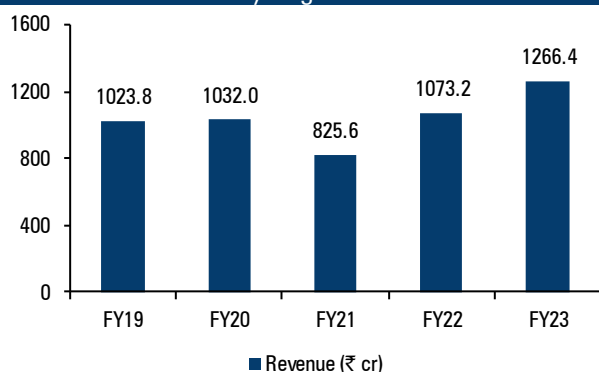
Source: ICICI Direct Research, Company

Exhibit 4: Products segment



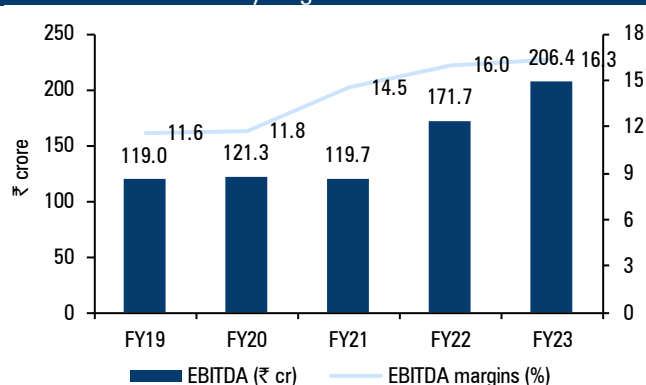
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 7% CAGR in FY20-23



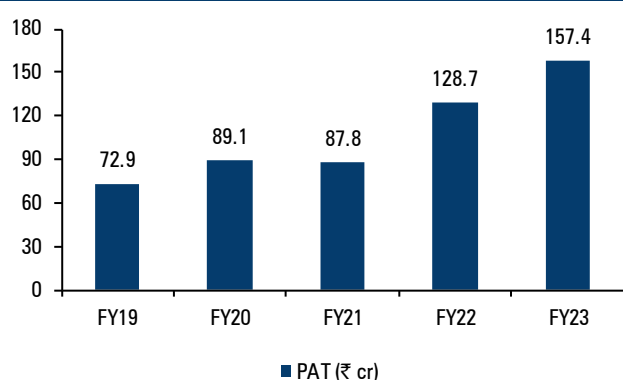
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA likely to grow at 19% CAGR in FY20-23



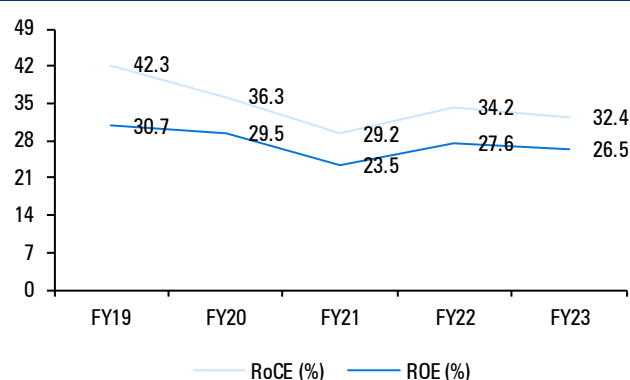
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 21% CAGR in FY20-23



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/EBITD	RoNW (%)	RoCE (%)
FY19	1023.8	15.7	19.0	24.8	49.9	30.5	30.7	42.3
FY20	1032.0	0.8	23.3	22.3	40.8	29.9	29.5	36.3
FY21E	825.6	-20.0	22.9	-1.4	41.4	8.9	23.5	29.2
FY22E	1073.2	30.0	33.6	46.6	28.3	7.0	27.6	34.2
FY23E	1266.4	18.0	41.1	22.3	23.1	5.5	26.5	32.4

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 10: Profit & Loss Statement** ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	1,032.0	825.6	1,073.2	1,266.4
Growth (%)	0.8	(20.0)	30.0	18.0
Operating expenses	734.2	561.4	729.8	861.2
Employee Cost	101.8	86.7	102.0	119.0
Other expenses	74.7	57.8	69.8	79.8
Total Expenses	910.7	705.9	901.5	1,060.0
EBITDA	121.3	119.7	171.7	206.4
Growth (%)	1.9	(1.3)	43.4	20.2
Depreciation	7.8	8.8	10.5	12.2
EBIT	113.5	110.9	161.2	194.2
Interest	0.9	0.8	0.1	0.1
Other Income	4.4	7.2	10.8	16.2
PBT	117.0	117.3	172.0	210.4
Growth (%)	4.6	0.3	46.6	22.3
Tax	27.9	29.5	43.3	53.0
Reported PAT	89.1	87.8	128.7	157.4
Exceptional Items	-	-	-	-
Adjusted PAT	89.1	87.8	128.7	157.4
Growth (%)	22.3	(1.4)	46.6	22.3
EPS	23.3	22.9	33.6	41.1

Source: ICICI Direct Research

**Exhibit 11: Cash flow Statement** ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	89.1	87.8	128.7	157.4
Less: Dividend Paid	(0.9)	(0.8)	(0.1)	(0.1)
Add: Depreciation	7.8	8.8	10.5	12.2
Add: Others	-	-	-	-
Cash Profit	97.8	97.4	139.2	169.7
Increase/(Decrease) in CL	(10.4)	(7.9)	19.0	16.2
(Increase)/Decrease in CA	(3.3)	40.0	(38.9)	(30.9)
CF from Operating Activities	53.1	127.3	117.0	152.5
(Add) / Dec in Fixed Assets	(27.3)	(57.8)	(63.2)	(72.5)
Changes in goodwill	(0.7)	-	-	-
(Inc)/Dec in Investments	0.4	(30.0)	(20.0)	(20.0)
CF from Investing Activities	(27.6)	(87.8)	(83.2)	(92.5)
Inc/(Dec) in Loan Funds	(5.8)	(1.7)	(0.5)	-
Inc/(Dec) in Sh. Cap. & Res.	(19.0)	(15.3)	(15.3)	(15.3)
Others	(4.9)	(0.7)	0.0	0.0
CF from financing activities	(29.7)	(17.7)	(15.8)	(15.3)
Change in cash Eq.	(4.2)	21.8	18.1	44.8
Op. Cash and cash Eq.	17.1	12.9	34.7	52.7
Cl. Cash and cash Eq.	12.9	34.7	52.7	97.5

Source: ICICI Direct Research

**Exhibit 12: Balance Sheet** ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	7.7	7.7	7.7	7.7
Reserves & Surplus	329.6	402.1	515.5	657.6
Shareholder's Fund	337.3	409.8	523.1	665.3
Secured Loan	0.5	0.5	0.3	0.3
Unsecured Loan	11.4	0.6	0.3	0.3
Total Loan Funds	2.8	1.1	0.6	0.6
Deferred Tax Liability	0.1	0.1	0.1	0.1
Minority Interest	4.1	4.2	4.3	4.4
Source of Funds	344.3	415.2	528.1	670.4
Application of Funds				
Gross Block	208.8	258.8	308.8	358.8
Less: Acc. Depreciation	27.5	36.3	46.8	59.0
Net Block	181.3	222.5	262.0	299.8
Capital WIP	11.1	18.9	32.1	54.5
Total Fixed Assets	192.4	241.4	294.1	354.4
Intangibles	2.2	2.2	2.2	2.2
Investments	0.9	30.9	50.9	70.9
Debtors	165.8	124.4	161.7	190.8
Cash	12.9	34.7	52.7	97.5
Current Investments	28.6	30.0	31.5	33.1
Loan & Advance, Other C/	24.9	27.0	29.5	32.1
Total Current assets	203.5	186.1	243.9	320.4
Creditors	62.0	50.8	66.0	77.9
Other Current Liabilities	20.5	23.6	27.2	31.2
Provisions	4.7	4.9	5.2	5.4
Deferred Tax Assets	3.9	3.9	3.9	3.9
Total CL and Provisions	87.2	79.3	98.3	114.5
Net Working Capital	116.4	106.8	145.6	205.9
Miscellaneous expense	-	-	-	-
Application of Funds	344.3	415.2	528.1	670.4

Source: ICICI Direct Research

**Exhibit 13: Key Ratios**

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	88.1	107.0	136.7	173.8
EPS	23.3	22.9	33.6	41.1
Cash EPS	25.3	25.2	36.4	44.3
DPS	4.0	4.0	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.8	14.5	16.0	16.3
PAT Margin (%)	8.6	10.6	12.0	12.4
Fixed Asset Turnover (x)	3.0	2.0	2.0	1.9
Debtor (Days)	58.2	55.0	55.0	55.0
Current Liabilities (Days)	33.4	33.0	33.0	33.0
Return Ratios (%)				
RoE	29.5	23.5	27.6	26.5
RoCE	36.3	29.2	34.2	32.4
RoIC	26.2	21.4	24.6	23.6
Valuation Ratios (x)				
P/E	40.8	41.4	28.3	23.1
Price to Book Value	10.8	8.9	7.0	5.5
EV/EBITDA	29.9	30.1	20.9	17.1
EV/Sales	3.5	4.4	3.3	2.8
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	126.1	144.0	2,687.0	3,237.1
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	2.2	1.9	1.9	1.9

Source: ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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