Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

TCI Express Ltd

Mixed Q1; Positive outlook intact

Logistics	Sharekhan code: TCIEXP		
Reco/View: Buy ↔	CMP: Rs. 1,754	Price Target: Rs. 2,170 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

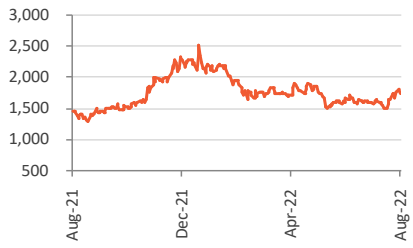
Company details

Market cap:	Rs. 6,757 cr
52-week high/low:	Rs. 2570/1280
NSE volume: (No of shares)	0.9 lakh
BSE code:	540212
NSE code:	TCIEXP
Free float: (No of shares)	1.3 cr

Shareholding (%)

Promoters	66.7
FII	1.9
DII	8.8
Others	22.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.6	-1.2	-6.6	20.3
Relative to Sensex	1.0	-6.0	-6.1	12.9

Sharekhan Research, Bloomberg

Summary

- TCI Express Limited (TCI) reported better-than-expected performance for Q1FY2023, barring OPM, which lagged estimates on account of weak gross margins. The company generated Rs. 35 crores CFO with strong net cash position of Rs. 104 crore.
- The company lowered its revenue growth guidance for FY2023 to 18-20% y-o-y versus earlier 20-22%. However, OPM is targeted at 18%, considering Q1 an aberration due to seasonality.
- The company incurred Rs. 33 crore capex towards purchase of land for setting up 2 lakh square feet Kolkata sorting centre. Automation at Pune sorting centre is expected to be completed by Q2FY2024.
- We retain Buy on TCI with an unchanged PT of Rs. 2,170, considering strong profitable growth path over FY2022-FY2024E.

TCI Express Limited (TCI) reported better-than-expected performance for Q1FY2023, barring OPM, which came in tad below our estimate. Standalone revenue increased 30% y-o-y to Rs. 290 crore (9% higher than our estimate), led by volume growth of 28% y-o-y (84.5% capacity utilisation) contributed equally by its corporate and SME customers. Operating profit margin (OPM) at 14.7% (+34bps y-o-y, -210bps q-o-q) was lower than our estimate of 15.3%, mainly led by weak gross margin at 30.8% (down 88bps y-o-y and 232bps q-o-q). Weaker gross margin can be attributed to uneven regional growth, leading to higher empty running. Overall, operating profit/net profit increased 33%/30.5% y-o-y to Rs. 43 crore/Rs. 31 crore (5% higher than our estimates). The company has marginally lowered its revenue growth guidance to 18-20% y-o-y from earlier 20-22% y-o-y for FY2023. OPM target is kept at 18% as Q1 generally has lower margins. The company incurred Rs. 33 crore capex majorly towards land purchase for setting up 2 lakh square feet Kolkata sorting centre. Automation at Pune sorting centre is expected to commence from September and completed by Q2FY2024.

Key positives

- Standalone revenue rose 30% y-o-y, which was 9% higher than our estimate, aided by 28% y-o-y growth in tonnage.
- The company generated Rs. 35 crore of cash flow from operations with net cash of Rs. 104 crore at Q1FY2023 end.

Key negatives

- OPM lagged estimates owing to weak gross margin, which was affected by uneven regional growth leading to higher empty running costs.
- Revenue growth guidance for FY2023 has been marginally revised downwards to 18-20% y-o-y from 20-22%.

Management Commentary

- The company's board approved buyback proposal of up to 3,65,853 equity shares (2.85% of public holding) for an aggregate amount not exceeding Rs. 75 crore at Rs. 2,050 per share (17% premium to LTP).
- The Gurgaon sorting centre is now operational and it handled 18% of the total tonnage processed by the company. The sorting centre can be scaled up to handle 40% of the total tonnage over five years.
- It added 10 new branches in West and North regions and expects to add around 50 branches during FY2023.
- In one year, the rail express service has seen an increase in customers from 250 to 1000 and presence from 10 routes to 60 routes.

Revision in estimates – We have fine-tuned our estimates for FY2023-FY2024.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 2,170: TCI is expected to benefit from strong recovery in SMEs, driven by improved domestic economic activity. Scale-up of new businesses and operational efficiencies would help OPM improve each year. TCI continues to deepen its presence with the target of doubling the number of its branches in 3-4 years. We expect the company to capitalise on improving infrastructure, national logistics policy, and GST to post strong net earnings growth over FY2022-FY2024E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. Hence, we retain Buy with an unchanged price target (PT) of Rs. 2,170.

Key Risks

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

Valuation — Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	844.0	1,081.5	1,274.8	1,478.7
OPM (%)	15.9	16.2	17.0	17.8
Adjusted PAT	100.6	128.9	156.4	189.1
% YoY growth	12.9	28.1	21.4	20.9
Adjusted EPS (Rs.)	26.3	33.5	41.3	49.9
P/E (x)	66.8	52.4	42.5	35.2
P/B (x)	15.2	12.4	11.0	8.7
EV/EBITDA (x)	49.4	37.9	30.7	25.2
RoNW (%)	26.1	26.6	27.7	27.9
RoCE (%)	24.6	26.0	26.7	27.1

Source: Company; Sharekhan estimates

Healthy performance barring OPM

TCI reported better-than-expected performance for Q1FY2023, barring OPM, which came in tad below our estimates. Standalone revenue increased by 30% y-o-y to Rs. 290 crore (9% higher than our estimate), led by volume growth of 28% y-o-y (84.5% capacity utilisation) contributed equally by its corporate and SME customers. OPM at 14.7% (+34bps y-o-y, -210bps q-o-q) was lower than our estimate of 15.3%, mainly led by weak gross margins at 30.8% (down 88bps y-o-y and 232bps q-o-q). Weaker gross margins can be attributed to uneven regional growth, leading to higher empty running. Overall, operating profit/net profit was up 33%/30.5% y-o-y to Rs. 43 crore/Rs. 31 crore (5% higher than our estimates).

Growth outlook remains intact

The company lowered its overall revenue growth guidance to 18-20% y-o-y versus earlier 20-22% y-o-y revenue growth for FY2023. TCI would target OPM of 18% for FY2023. The company incurred Rs. 33 crore capex primarily towards land purchase in Kolkata for setting up an automated sorting centre. Kolkata centre would be 2 lakh square feet and automated like Gurgaon sorting centre. It would start automation at its 1.5 lakh square feet Pune sorting centre and complete the same by Q2 of next year. The newly set-up automated sorting centres along with automation at existing centres would help increase throughput, led by much lower turnaround time along with OPM expansion, led by operational efficiencies.

Key Conference Call Takeaways -

- **Guidance:** The company lowered its overall revenue growth guidance to 18-20% y-o-y versus earlier 20-22% y-o-y revenue growth for FY2023. It would target OPM of 18% for FY2023.
- **Buyback:** The company's board approved buyback proposal of up to 3,65,853 equity shares (2.85% of public holding) for an aggregate amount not exceeding Rs. 75 crore, at Rs. 2,050 per share.
- **Q1FY2023 performance:** Tonnage volumes grew 28% y-o-y to 2.3 lakh tonne. It operated at 84.5% capacity utilisation level. Gross margin was lower q-o-q on account of higher growth witnessed in the western region compared to eastern and southern regions. OPM was lower q-o-q on account of higher employee costs as it is building team for its newly launched services. Rail revenue grew by 75% y-o-y, while Air express revenue growth was on similar line as surface segment's revenue growth.
- **Capex:** The company incurred Rs. 33 crore capex primarily towards land purchase in Kolkata for setting up an automated sorting centre. The Kolkata centre would be 2 lakh square feet and automated such as Gurgaon sorting centre.
- **Gurgaon sorting centre:** The sorting centre is now operational and it handled 18% of the total tonnage processed by the company. The sorting centre can be scaled up to handle 40% of the total tonnage over five years.
- **Pune sorting centre:** It would start automation at its 1.5 lakh square feet Pune sorting centre and complete the same by Q2 of next year. Currently, it is using 40% of the capacity.
- **Rail express:** In one year, the rail express service has seen an increase in customers from 250 to 1000 and presence from 10 routes to 60 routes.
- **New businesses:** New businesses including air comprised 15% of the overall revenue.
- **Branch addition:** It added 10 new branches in western and northern regions and expects to add around 50 branches during FY2023.

Results — **Rs cr**

Particulars	Q1FY23	Q1FY22	y-o-y %	Q4FY22	q-o-q %
Net sales	**290.4**	**222.9**	**30.3%**	**298.2**	**-2.6%**
Other income	1.9	1.6	17.7%	2.1	-8.1%
Total income	292.4	224.6	30.2%	300.3	-2.6%
Total expenses	247.7	190.8	29.8%	248.0	-0.1%
Operating profit	**42.8**	**32.1**	**33.4%**	**50.2**	**-14.8%**
Depreciation	3.3	2.2	49.3%	3.2	5.4%
Interest	0.3	0.1	163.6%	0.3	0.0%
Profit Before Tax	**41.1**	**31.4**	**31.0%**	**48.9**	**-15.9%**
Taxes	10.1	7.6	32.4%	12.9	-21.9%
PAT	31.0	23.8	30.5%	35.9	-13.7%
Adjusted PAT	**31.0**	**23.8**	**30.5%**	**35.9**	**-13.7%**
EPS (Rs.)	8.1	6.2	30.5%	9.3	-13.7%
OPM (%)	14.7%	14.4%	34 bps	16.8%	-210 bps
NPM (%)	10.7%	10.7%	2 bps	12.0%	-137 bps
Tax rate (%)	24.5%	24.3%	27 bps	26.4%	-190 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth outlook led by changing consumer preferences and macro pick-up

The logistics industry is one of the key sectors, which has shown strong revival post-COVID-19 pandemic, which affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generation, FASTag collections, Indian rail volumes, domestic port volumes, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve business, led by user industries' preference towards credible supply chain management in wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen faster improvement in operations, led by segments such as e-commerce, pharmaceuticals, and FMCG. Hence, we have a Positive view of the sector.

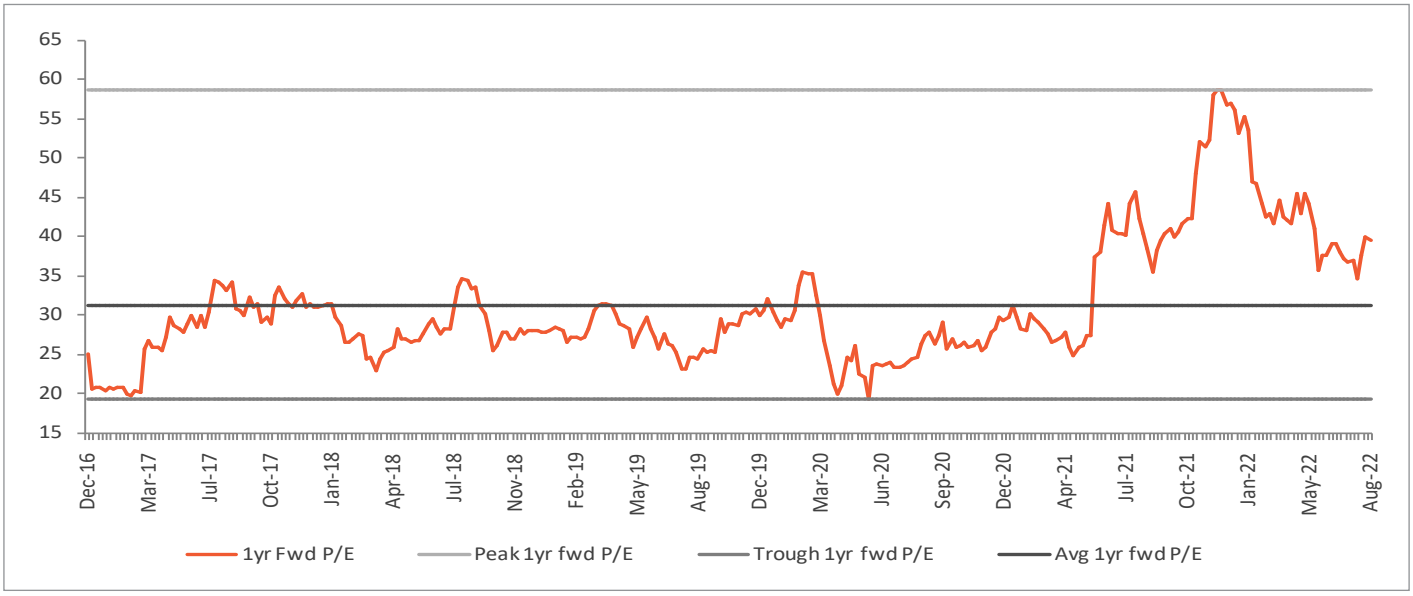
■ Company outlook - Profitable growth outlook

Management is optimistic about the growth outlook for FY2023, expecting strong pent-up demand from the SME segment (which comprises almost 50% of revenue). The company expects to achieve 18-20% y-o-y revenue growth for FY2023. On the OPM front, it expects to continue aiming for a 50-100 bps y-o-y improvement each year to be driven by higher capacity utilisation and cost efficiencies. TCI has also launched three new value-added services called Cold Chain Express (catering to pharma and frozen food packaging companies), C2C Express (first-to-launch customer-to-customer service with multi-location pick-up and delivery), and Rail Express (to cater to B2B air cargo business). The company remains optimistic about growth and expects to gain market share going ahead. The company targets to reach Rs. 2,000 crore in revenue, OPM of 20%, and net profit of more than Rs. 300 crore in FY2025.

■ Valuation - Retain Buy with an unchanged PT of Rs. 2,170

TCI is expected to benefit from strong recovery in SMEs, driven by improved domestic economic activity. Scale-up of new businesses and operational efficiencies would help OPM improve each year. TCI continues to deepen its presence with the target of doubling the number of its branches in 3-4 years. We expect the company to capitalise on improving infrastructure, national logistics policy, and GST to post strong net earnings growth over FY2022-FY2024E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. Hence, we retain Buy with an unchanged PT of Rs. 2,170.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Mahindra Logistics	65.0	38.9	12.4	9.9	4.8	4.3	8.6	12.8
TCI Express	42.5	35.2	30.7	25.2	11.0	8.7	27.7	27.9
Transport Corporation of India	19.4	18.7	13.0	12.2	3.3	2.8	18.6	16.4

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 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 a 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 is 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 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

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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Compliance Officer: Ms. Priya Sonavane; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.