

Expect reversion in margins to 17%+ from Q2 onward

About the stock: TCI Express is a leading asset light B2B (95% of revenues) express logistics company with 28 sorting centres, 800+ owned pan-India centres covering 40000 pick-up and delivery points.

- SME and corporate clients comprise 50:50 of overall revenues
- Total 55% of revenues from sectors like auto ancillary, pharma, engineering

Q1FY23 Results: Margins took a hit due to seasonality.

- Revenues grew 30% YoY to ₹ 290 crore (flat volume growth)
- EBITDA grew 30% YoY to ₹ 43 crore with margins at 14.7% (vs. expected 16% margins)
- Subsequently, PAT grew 31% to ₹ 31 crore (low base effect)

What should investors do? Asset light business, with IT enabled owned branches, keeps at the business operations at optimum levels and aligned to the company strategy of providing customised express solution to its customers. It makes TCI Express well positioned to maintain and strengthen its leadership position among logistics peers.

- We remain positive on the stock and maintain our **BUY** recommendation

Target Price & Valuation: We value the stock at ₹ 1950 i.e. 40x P/E on FY24E EPS.

Key triggers for future price performance: Automation of warehouses is expected to provide execution with minimal human intervention, which helps in lower truck halting period and efficient warehouse management and is expected to build a strong entry barrier in the B2B segment. Such steps are expected to drive the consolidated EBITDA margins above 20%+ levels.

- Newer businesses (rail express, pharma cold chain and C2C express) are expected to provide further room for margin improvement
- Asset light business model, with projected 25%+ RoIC

Alternate Stock Idea: Apart from TCI Express, we remain positive on Blue Dart.

- Blue Dart, with its premium offerings, has been a beneficiary of flight to quality trend post pandemic, which resulted in higher tonnage growth, backed by greater digital connect with customers and focus on servicing bigger customers and brands
- We remain positive on the stock due to revival in its B2C and B2B segments and a continued expansion in margin profile



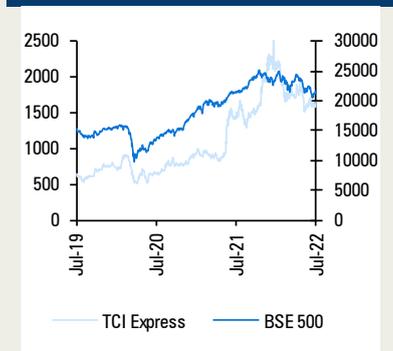
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	6,507.3
Total Debt (FY22) (₹ Cr)	1.0
Cash (FY22) (₹ Cr)	18.0
EV (₹ Cr)	6,490.3
52 week H/L	2572/1280
Equity capital (₹ Cr)	3.8
Face value (₹)	2.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	66.7	66.7	66.7	66.7
FII	1.5	2.1	2.0	1.9
DII	10.8	9.3	8.1	8.7
Others	21.1	21.8	23.2	22.7

Price Chart



Recent event & key risks

- Automation of sorting centres
- Key Risk:** (i) Delay in expected recovery in MSME (ii) Rising B2B competitiveness

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 Years CAGR (FY17-22)	FY23E	FY24E	2 Years CAGR
Revenues (₹ crore)	1,032.0	844.0	1,081.5	7.6	1,259.7	1,479.1	16.9
EBITDA (₹ crore)	121.3	134.3	174.7	23.1	196.5	252.9	20.3
Adjusted Net Profit (₹ crore)	89.1	100.6	128.9	28.0	144.2	188.4	20.9
EPS (₹)	23.3	26.2	33.5		37.5	48.9	
P/E (x)	73.1	65.0	50.8		45.4	34.7	
Price / Book (x)	19.3	15.1	12.2		10.1	8.1	
EV/EBITDA (x)	53.6	48.5	37.4		33.2	25.8	

Key takeaways

Q1FY23 Results: Owned branches to provide better aligned culture for winning customers

- In Q1, the company added 10 new branches in the metro cities, primarily in the west and north region
- Revenue mix was driven equally by SME and Corporates

Q1FY23 Earnings Conference Call highlights

- The board has also approved buyback amounting to ₹ 75 crore through open offer route at indicative price of ₹ 2050, subject to shareholder's approval
- TCI Express Pune centre has reached 40% utilisation rate
- TCI Express has added 10 new branches in Q1
- The company had launched three new services Pharma Cold Chain Express, C2C Express and Rail Express in FY22, which are seeing good acceptance among customers
- The company has incurred ₹ 33 crore as capex in Q1 for purchasing land in Kolkata (for building a sorting centre)
- The new businesses are contributing 15% to revenues and are expected to grow to 25% in FY25
- The company expects to take a price hike of 3-4% in FY23 whereas last year it took a hike in the range of 2.5%
- Truck utilisation was at 84.5% during the quarter. The management expects 85%+ from next quarter onwards
- The management has guided for 16-20% revenue growth in the next three years

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	290.4	313.1	222.9	30.3	298.2	-2.6	Seasonality impacts Q1, utilisation down to 84.5% (earlier 85%+)
Operating expenses	201.0	214.5	152.3	32.0	199.4	0.8	Higher commodity prices, lower route optimisation (lower growth from west and higher empties) impacts gross profit (delayed pass-through of costs)
Employee Expenses	30.9	29.7	25.6	20.7	29.3	5.4	
Other Expense	15.8	18.8	13.0	21.7	19.3	-18.0	
Total Expense	247.7	263.0	190.8	29.8	248.0	-0.1	
EBITDA	42.8	50.1	32.1	33.4	50.2	-14.8	
EBITDA Margin (%)	14.7	16.0	14.4	34 bps	16.8	-210 bps	Margins lower vis-à-vis estimate due to lower capacity utilisation and operational efficiency
Depreciation	3.3	3.3	2.2	49.3	3.2	5.4	
Interest	0.3	0.2	0.1	163.6	0.2	52.6	
Other Income	1.9	2.1	1.6	17.7	2.1	-8.1	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	41.1	48.7	31.4	31.0	49.0	-16.0	
Total Tax	10.1	12.3	7.6	32.4	12.9	-21.9	
PAT	31.0	36.4	23.8	30.5	36.0	-13.9	

Source: Company, ICICI Direct Research

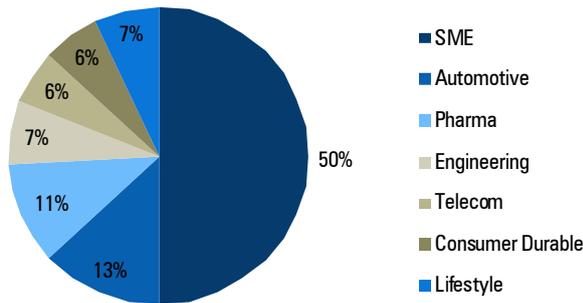
Exhibit 2: Change in estimates

(₹ Crore)	FY23E				FY24E				Comments
	FY22	Old	New	% Change	Old	New	% Change		
Gross Revenue	1,081.5	1,305.9	1,259.7	-3.5	1,576.8	1,479.1	-6.2	Revenues declined due to lower than expected growth in overall volumes	
EBITDA	174.7	216.8	196.5	-9.3	269.6	252.9	-6.2		
EBITDA Margin (%)	16.2	16.6	15.6	-100 bps	17.1	17.1	0 bps	FY23 margins revised downwards due to higher cost inflation in the near to medium term	
PAT	128.9	159.4	144.2	-9.5	200.9	188.4	-6.2		
EPS (₹)	33.5	41.4	37.5	-9.5	52.2	48.9	-6.2		

Source: ICICI Direct Research

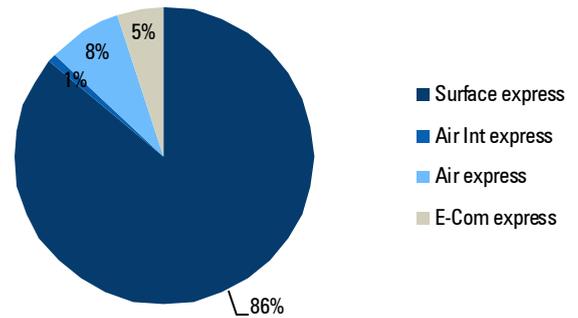
Key Metrics

Exhibit 3: Industry verticals



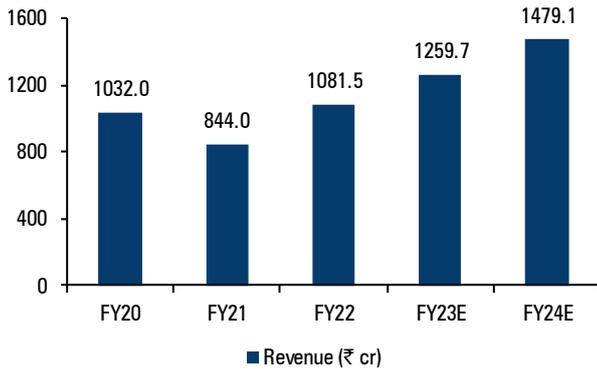
Source: ICICI Direct Research, Company

Exhibit 4: Product segment



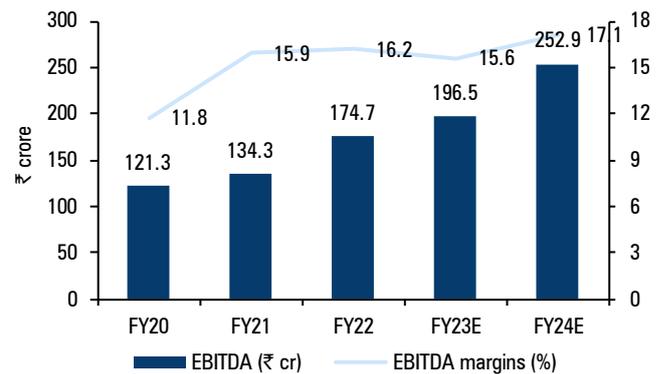
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 17% CAGR in FY22-24



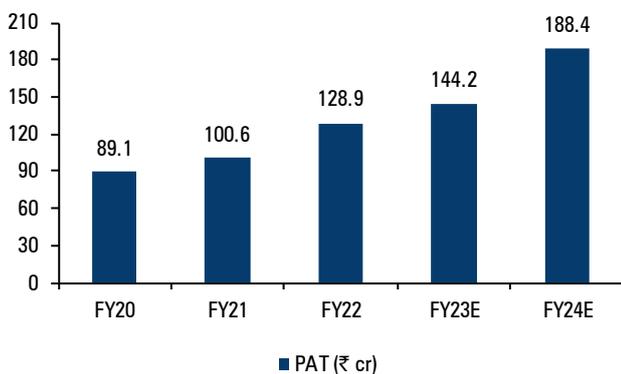
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA likely to grow at 20% CAGR in FY22-24



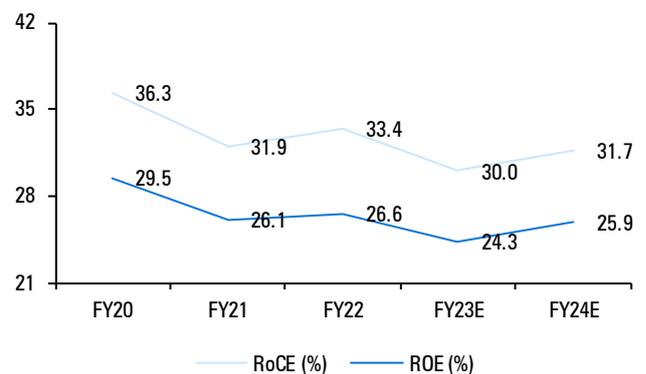
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 21% CAGR in FY20-24



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 (%)
FY20	1032.0	0.8	23.3	22.3	73.1	53.6	29.5	36.3
FY21	844.0	-18.2	26.2	12.4	65.0	15.1	26.1	31.9
FY22	1081.5	28.1	33.5	27.9	50.8	12.2	26.6	33.4
FY23E	1259.7	16.5	37.5	11.9	45.4	10.1	24.3	30.0
FY24E	1479.1	17.4	48.9	30.6	34.7	8.1	25.9	31.7

Source: Company, ICICI Direct

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	844.0	1,081.5	1,259.7	1,479.1
Growth (%)	(18.2)	28.1	16.5	17.4
Operating expenses	566.7	733.0	862.9	994.0
Employee Cost	87.3	109.9	126.0	145.0
Other expenses	55.6	63.8	74.3	87.3
Total Expenses	709.7	906.7	1,063.2	1,226.2
EBITDA	134.3	174.7	196.5	252.9
Growth (%)	10.7	30.1	12.5	28.7
Depreciation	9.0	10.0	16.0	19.5
EBIT	125.4	164.8	180.5	233.4
Interest	0.8	0.9	0.1	0.1
Other Income	7.7	8.2	12.3	18.4
PBT	132.2	172.0	192.7	251.7
Growth (%)	13.0	30.1	12.0	30.6
Tax	31.6	43.2	48.5	63.4
Reported PAT	100.6	128.9	144.2	188.4
Exceptional Items	-	-	-	-
Adjusted PAT	100.6	128.9	144.2	188.4
Growth (%)	12.9	28.1	11.9	30.6
EPS	26.2	33.5	37.5	48.9

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	100.6	128.9	144.2	188.4
Less: Dividend Paid	(0.8)	(0.9)	(0.1)	(0.1)
Add: Depreciation	9.0	10.0	16.0	19.5
Add: Others	-	(18.8)	-	-
Cash Profit	110.4	120.9	160.3	208.0
Increase/(Decrease) in CL	16.1	8.6	9.5	17.8
(Increase)/Decrease in CA	(5.4)	(18.7)	(1.7)	(34.7)
CF from Operating Activities	99.9	110.8	162.5	185.2
(Add) / Dec in Fixed Assets	(54.5)	(80.0)	(100.3)	(102.4)
Changes in goodwill	0.4	(1.3)	-	-
(Inc)/Dec in Investments	(43.0)	(43.0)	(30.0)	(60.0)
CF from Investing Activities	(97.1)	(124.3)	(130.3)	(162.4)
Inc/(Dec) in Loan Funds	(1.8)	(0.0)	(0.4)	-
Inc/(Dec) in Sh. Cap. & Res.	(4.0)	(26.5)	(30.8)	(30.8)
Others	17.3	30.8	0.1	0.1
CF from financing activities	11.5	4.3	(31.1)	(30.7)
Change in cash Eq.	14.3	(9.2)	1.1	(7.9)
Op. Cash and cash Eq.	12.9	27.2	18.0	19.1
Cl. Cash and cash Eq.	27.2	18.0	19.1	11.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	7.7	7.7	7.7	7.7
Reserves & Surplus	426.2	528.5	641.9	799.5
Shareholder's Fund	433.9	536.2	649.6	807.2
Secured Loan	0.5	0.5	0.3	0.3
Unsecured Loan	0.6	0.6	0.3	0.3
Total Loan Funds	1.0	1.0	0.6	0.6
Deferred Tax Liability	0.1	0.1	0.1	0.1
Minority Interest	5.4	7.9	8.0	8.2
Source of Funds	440.4	545.2	658.3	816.0
Application of Funds				
Gross Block	259.0	357.7	457.7	557.7
Less: Acc. Depreciation	34.5	44.5	60.5	80.0
Net Block	224.4	314.7	397.2	477.6
Capital WIP	27.8	6.1	7.9	10.3
Total Fixed Assets	252.2	320.8	405.1	487.9
Intangibles	1.8	3.0	3.0	3.0
Investments	14.7	1.1	31.1	91.1
Debtors	169.5	189.5	189.8	222.9
Cash	27.2	18.0	19.1	11.2
Current Investments	58.7	87.0	91.4	95.9
Loan & Advance, Other C/	17.6	33.5	36.1	39.0
Total Current assets	214.3	241.0	245.0	273.1
Creditors	75.2	73.7	78.0	89.9
Other Current Liabilities	23.8	32.6	37.5	43.1
Provisions	4.3	5.6	5.8	6.1
Deferred Tax Assets	2.0	4.1	4.1	4.1
Total CL and Provisions	103.3	111.9	121.3	139.1
Net Working Capital	111.0	129.2	123.7	134.0
Miscellaneous expense	-	-	-	-
Application of Funds	440.4	545.2	658.3	816.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	112.8	139.3	168.7	209.6
EPS	26.2	33.5	37.5	48.9
Cash EPS	28.5	36.1	41.6	54.0
DPS	4.0	8.0	8.0	8.0
Profitability & Operating Ratios				
EBITDA Margin (%)	15.9	16.2	15.6	17.1
PAT Margin (%)	11.9	11.9	11.4	12.7
Fixed Asset Turnover (x)	1.9	2.0	1.9	1.8
Debtor (Days)	72.5	60.6	55.0	55.0
Current Liabilities (Days)	44.2	37.1	33.0	33.0
Return Ratios (%)				
RoE	26.1	26.6	24.3	25.9
RoCE	31.9	33.4	30.0	31.7
RoIC	23.1	24.0	22.2	23.3
Valuation Ratios (x)				
P/E	65.0	50.8	45.4	34.7
Price to Book Value	15.1	12.2	10.1	8.1
EV/EBITDA	48.5	37.4	33.2	25.8
EV/Sales	7.7	6.0	5.2	4.4
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	160.7	181.0	3,008.2	3,890.2
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	1.8	2.0	1.9	1.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
APSEZ	800	900	BUY	1,62,540	21.2	35.9	44.3	32.5	34.5	22.3	21.8	22.2	15.3	12.7	9.6	13.7	16.3	11.3	16.5		
Container Corporation	680	750	BUY	36,558	17.3	30.4	36.8	82.0	39.3	22.4	10.3	6.0	4.6	4.5	10.2	12.2	5.4	9.6	14.8		
Transport Corp. of India	720	860	BUY	5,252	37.3	42.4	50.8	38.0	19.3	17.0	20.9	12.8	11.4	13.3	20.3	20.2	12.9	20.5	19.1		
TCI Express	1,690	1,950	BUY	6,507	26.2	33.5	37.5	73.1	65.0	50.8	53.6	48.5	37.4	36.3	31.9	33.4	29.5	26.1	26.6		
Mahindra Logistics	475	550	BUY	3,406	5.2	9.0	14.9	91.9	53.1	32.0	16.2	12.2	9.2	12.2	33.1	38.4	6.3	10.1	14.6		
Gateway Distriparks	70	85	BUY	3,498	4.5	3.5	4.4	37.1	15.6	19.9	12.6	10.3	8.9	11.7	15.4	16.2	6.4	13.7	10.2		

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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