Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

TCI Express Ltd

Strong Q2; Growth plans intact

Logistics	Sharekhan code: TCIEXP
Reco/View: Buy ↔	CMP: Rs. 1,895 | Price Target: Rs. 2,250 ↑

↑ 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		↔	

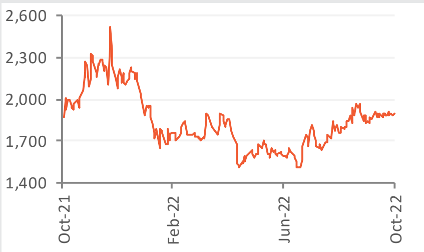
Company details

Market cap:	Rs. 7,303 cr
52-week high/low:	Rs. 2,570/1,444
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	1.8
DII	10.5
Others	21.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.5	7.1	2.0	0.9
Relative to Sensex	-3.3	1.6	-4.7	-0.1

Sharekhan Research, Bloomberg

Summary

- TCI Express Limited (TCI) reported broadly in-line performance for Q2FY2023, although operating margins surprised positively. The company generated Rs. 46 crores CFO during H1FY2023 with strong net cash position of Rs. 84 crore.
- The company retained its revenue growth guidance for FY2023 at 18-20% y-o-y while it expects similar growth run rate for FY2024. However, OPM is targeted at 17.5% and over 18% for FY2023 and FY2024 respectively.
- The company would be investing Rs. 500 crore over FY2023 to FY2028 for setting up five new sorting centres and automation of 10-11 existing sorting centres.
- We retain Buy on TCI with a revised PT of Rs. 2,250, rolling forward our valuation multiple to September 2024 earnings and considering its strong profitable growth path over FY2022-FY2025E.

TCI Express Limited (TCI) reported broadly in-line performance for Q2FY2023, although it surprised positively on operating margin front for Q2FY2023. Standalone revenue increased 13.3% y-o-y to Rs. 310 crore, led by volume growth of 12.5% y-o-y (85% load factor) and value led growth of almost 1% y-o-y. Operating profit margin (OPM) at 16.6% (almost flat y-o-y, up 188bps q-o-q) was better than our estimate of 15.8%. Overall, operating profit/net profit increased 13.7%/11% y-o-y to Rs. 51.5 crore/Rs. 37.8 crore. The company retained its revenue growth guidance of 18-20% y-o-y for FY2023 and similar growth run rate for FY2024. OPM target is 17.5% and over 18% for FY2023 and FY2024 respectively. The company incurred Rs. 50 crore capex during H1FY2023 majorly towards land for setting up 2 lakh square feet Kolkata sorting centre and network expansion by adding 22 new branches. The company has planned capex of Rs. 500 crores over FY2023 to FY2028 for setting up five new sorting centres and automation of 10-11 existing sorting centres.

Key positives

- Standalone revenue rose 13.3% y-o-y, aided by 12.5% y-o-y growth in tonnage. OPM came in better than estimate at 16.6%.
- The company generated Rs. 46 crore of cash flow from operations with net cash of Rs. 83.5 crore at Q2FY2023 end.

Key negatives

- Net working capital days increased to 24 days from 13 days in Q2FY2022 although the same is expected to normalize to 14 to 16 days by FY2023 end.
- New branch addition was revised downwards to 72 in FY2023 from 100 earlier.

Management Commentary

- Auto and retail sectors majorly contributed to growth while pharma remained flat y-o-y. The revenue mix of SME and big customers were 52:48 and 51:49 for Q2FY2023 and H1FY2023 respectively.
- Till now during FY2023, it has undertaken on an average 1.5% price hike. For FY2023, it targets to take 2.5-3% price increase.
- The company is setting up five sorting centres by FY2025 of which Chennai is expected to come on stream by mid FY2024 followed by Kolkatta, Mumbai, Ahmedabad and Nagpur. It would be undertaking automation of 10-11 existing sorting centres over the next 4-5 years.

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

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2,250: TCI is expected to benefit from strong domestic economic activity aided by its continuous expansion by setting up new sorting centres and automation of existing centres. 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 have introduced our FY2025E earnings in this note. We expect the company to capitalise on improving infrastructure, national logistics policy, and GST to post strong net earnings growth over FY2022-FY2025E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. Hence, we retain Buy with a revised price target (PT) of Rs. 2,250 rolling forward our valuation multiple to September 2024 earnings.

Key Risks

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

Valuation Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	1,081.5	1,274.8	1,489.6	1,710.0
OPM (%)	16.2	17.0	17.8	18.2
Adjusted PAT	128.9	156.4	191.3	223.5
% YoY growth	28.1	21.4	22.3	16.8
Adjusted EPS (Rs.)	33.5	41.3	50.4	58.9
P/E (x)	56.6	45.9	37.6	32.1
P/B (x)	13.4	11.9	9.3	7.4
EV/EBITDA (x)	41.0	33.2	27.0	23.0
RoNW (%)	26.6	27.7	28.2	25.9
RoCE (%)	26.0	26.7	27.3	25.2

Source: Company; Sharekhan estimates

Key Conference call takeaways

- **Guidance:** The company retained its revenue growth guidance to 18-20% y-o-y for FY2023 and expects similar revenue growth for FY2024. It would target OPM of 17.5% and over 18% for FY2023 and FY2024 respectively.
- **Q2FY2023 performance:** The company achieved volume and value growth of 12.5% y-o-y and 1% y-o-y respectively for Q2FY2023. In tonnage terms, volume for Q2 and H1 were 2,47,000 tonnes and 4,77,000 tonnes respectively. The load factor stood at 85% for Q2. Auto and retail sectors majorly contributed to growth while pharma remained flat y-o-y. The revenue mix of SME and big customers were 52:48 and 51:49 for Q2FY2023 and H1FY2023 respectively.
- **Price hike:** Till now during FY2023, it has undertaken on an average 1.5% price hike. For FY2023, it targets to take 2.5-3% price increase.
- **Branch additions:** It added 22 branches in H1FY2023 majorly in West and North. It targets to add 50 branches in H2FY2023. In FY2024, it would target to add 100 branches.
- **Capex:** The company incurred capex of Rs. 50 crores during H1FY2023 primarily towards land purchase in Kolkata for setting up an automated sorting centre and network expansion by adding 22 new branches.
- **Working capital:** The working capital increased by 9 days during Q2FY2023 although the net working capital days are expected to normalise to 14 to 16 days.
- **Sorting centres:** The company is setting up five sorting centres by FY2025 of which Chennai is expected to come on stream by mid FY2024 followed by Kolkatta, Mumbai, Ahmedabad and Nagpur. It would be undertaking automation of 10-11 existing sorting centres over the next 4-5 years.
- **Cold chain:** The company is catering to only pharma segment in its cold chain business. It is not doing warehousing. It is able to achieve 18-20% operating margin in cold chain business.
- **Market share:** With the recently announced National Logistics Policy, the company expects its market share to go to 15-18% from current 7-10% over the next five years. However, there is no concrete data available on logistics market size and market shares by any government agencies.

Results — Rs cr

Particulars	Q2FY2023	Q2FY2022	y-o-y%	Q1FY2023	q-o-q%
Net sales	**309.9**	**273.4**	**13.3%**	**290.4**	**6.7%**
Other income	2.3	2.4	-3.8%	1.9	17.6%
Total income	312.2	275.8	13.2%	292.4	6.8%
Total expenses	258.4	228.2	13.3%	247.7	4.3%
Operating profit	**51.5**	**45.3**	**13.7%**	**42.8**	**20.3%**
Depreciation	3.5	2.4	47.9%	3.3	4.8%
Interest	0.4	0.3	16.7%	0.3	20.7%
Profit Before Tax	**49.9**	**45.0**	**11.0%**	**41.1**	**21.4%**
Taxes	12.1	10.9	11.0%	10.1	20.1%
PAT	37.8	34.0	11.0%	31.0	21.9%
Adjusted PAT	**37.8**	**34.0**	**11.0%**	**31.0**	**21.9%**
EPS (Rs.)	9.8	8.8	11.0%	8.1	21.9%
OPM (%)	16.6%	16.6%	6 bps	14.7%	188 bps
NPM (%)	12.2%	12.4%	-25 bps	10.7%	152 bps
Tax rate (%)	24.3%	24.3%	0 bps	24.5%	-27 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.

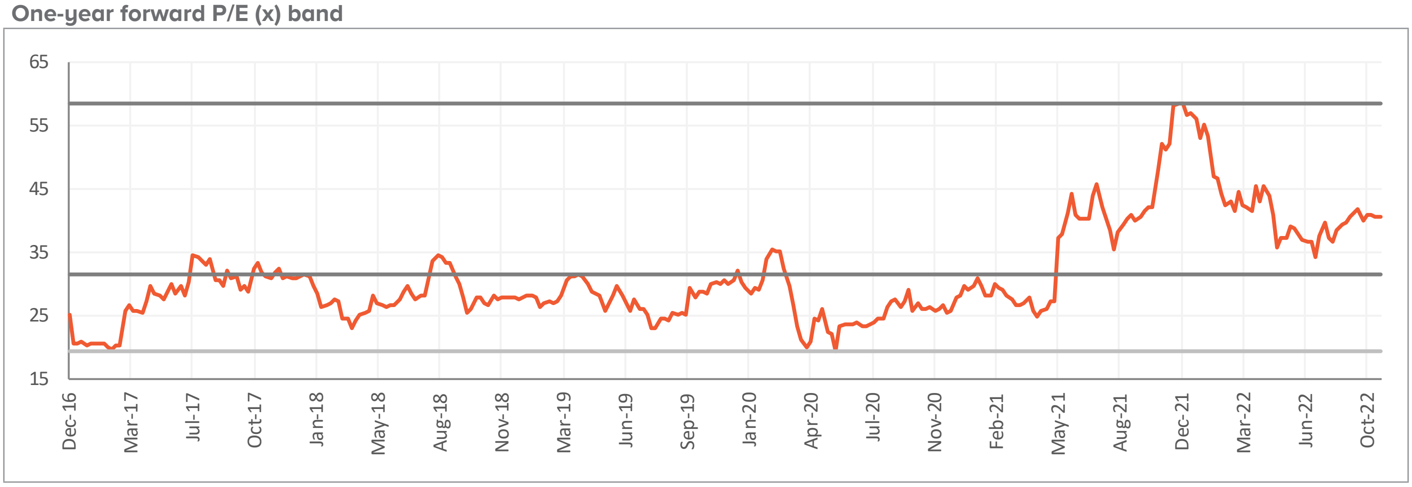
■ Company Outlook – Profitable growth outlook

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 a revised PT of Rs. 2,250

TCI is expected to benefit from strong domestic economic activity aided by its continuous expansion by setting up new sorting centres and automation of existing centres. 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 have introduced our FY2025E earnings in this note. We expect the company to capitalise on improving infrastructure, national logistics policy, and GST to post strong net earnings growth over FY2022-FY2025E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. Hence, we retain Buy with a revised price target (PT) of Rs. 2,250 rolling forward our valuation multiple to September 2024 earnings.

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	73.2	43.9	14.0	11.3	5.4	4.8	8.6	12.8
TCI Express	45.9	37.6	33.2	27.0	11.9	9.3	27.7	28.2

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 and 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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by BNP PARIBAS

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