Sharekhan by BNP PARIBAS

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Stock Update

Result Update

TCI Express Ltd

A one-off weak quarter; Outlook healthy

Logistics	Sharekhan code: TCIEXP		
Reco/View: Buy ↔	CMP: Rs. 1,740	Price Target: Rs. 2,070 ↓	

↑ 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		↔	

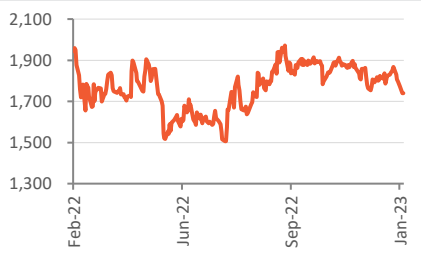
Company details

Market cap:	Rs. 6,705 cr
52-week high/low:	Rs. 2,100 / 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	66.9
FII	1.7
DII	10.4
Others	21.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.0	-7.5	-4.4	-10.6
Relative to Sensex	-0.9	-4.9	-6.9	-11.7

Sharekhan Research, Bloomberg

Summary

- We retain Buy on TCI with a 12 month revised PT of Rs. 2,070, owing to marginally downwardly revised estimates and lower valuation multiple to factor in current macro sluggishness.
- TCI Express Limited (TCI) reported lower-than-expected performance for Q3FY2023 as it was impacted by slower economic activities and a lower utilization level during October due to the festive season.
- The company lowered FY2023 revenue growth guidance to 16-17% y-o-y from 18-20% earlier while OPM is expected to remain flat. However, it retained its volume and revenue growth guidance to 18% and 20% y-o-y for FY2024.
- It would finalise automation at Pune centre by FY2024. Post that, it would automate Chennai, Kolkata, Bangalore and Mumbai sorting centres over 3-4 years.

TCI Express Limited (TCI) reported lower-than-expected performance for Q3FY2023. Standalone revenue increased 9.6% y-o-y to Rs. 314 crores, led entirely by volume growth of 10% y-o-y, while it could not take price hike during the quarter. Lower utilisation (83% vs 85% in Q2FY2023) owing to 75-76% utilisation levels during a week in festive month of October and general weakness in rural and manufacturing sectors led to a miss on revenues. The operating profit margin (OPM) at 14.7% (down 179bps y-o-y, down 196bps q-o-q) too came in lower than our estimate of 17% owing to lower utilisation and lower gross margins (lower more than 160 bps both y-o-y and q-o-q). Consequently, operating profit/net profit declined by 2.3%/8.8% y-o-y to Rs. 46.1 crore/Rs. 32 crores (much lower than our estimate). Weak Q3 led to management lowering FY2023 revenue growth guidance to 16-17% y-o-y and flattish OPM. However, it retained 20% y-o-y revenue growth guidance for FY2024 with 18-19% OPM. For FY2025, it marginally tweaked its revenue target to Rs. 1900 crore (Rs. 2000 crore earlier) and OPM of 19-20% (earlier 20%+).

Key positives

- Despite macro challenges and weak demand in the festive month, it grew its volumes by 10% y-o-y to 2.53 lakh tonnes.
- The company generated Rs. 95 crores of cash flow from operations while net working capital days remained flat at 16 days q-o-q.

Key negatives

- OPM came in lower-than-expected owing to lower utilisation levels and lower gross margins.
- Net cash surplus declined to Rs. 44.4 crores from Rs. 82.9 crores in Q2FY2023 owing to higher capex spend. New branch addition was revised downwards to 40 plus from 72 in FY2023.

Management Commentary

- It lowered FY2023 revenue growth guidance to 16-17% y-o-y from 18-20% earlier, while OPM is expected to remain flat. However, it retained its volume and revenue growth guidance to 18% and 20% y-o-y for FY2024.
- It trimmed down its FY2025 revenue growth guidance to Rs. 1900 crore (Rs. 2000 crore earlier) and OPM to 19-20% (20% earlier). It would target an OPM of 17.5% to 18% for Q4FY2023 and 18% to 19% for FY2024.
- It would finalise automation at the Pune centre by FY2024. Post that, it would automate Chennai, Kolkata, Bangalore and Mumbai sorting centers over 3-4 years.

Revision in estimates – We have marginally lowered our estimates for FY2023-FY2025.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2,070: TCI has been affected by a sluggish macro environment during Q3FY2023. However, it is expected to have relatively fared well compared to its peers. We expect the company to stay firm on its revenue growth trajectory and margin expansion over the next two years setting aside near-term weakness currently felt. The continuous expansion by setting up new sorting centres and automation of existing centres, addition of new branches and scale up of new businesses would provide more than 20% net earnings CAGR over FY2023E-FY2025E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. TCI has corrected over 10% over the trailing four months, which we believe provides an opportunity to invest. Hence, we retain Buy with 12 months revised price target (PT) of Rs. 2,070 owing to marginally downwardly revised estimates and lower valuation multiple to factor in current macro sluggishness.

Key Risks

A 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	1,249.9	1,460.5	1,676.7
OPM (%)	16.2	16.0	17.1	18.0
Adjusted PAT	128.9	141.8	177.8	214.5
% YoY growth	*28.1*	*10.1*	*25.3*	*20.6*
Adjusted EPS (Rs.)	33.5	37.4	46.9	56.6
P/E (x)	52.0	46.5	37.1	30.8
P/B (x)	12.3	11.2	8.9	7.1
EV/EBITDA (x)	37.6	33.0	26.3	21.7
RoNW (%)	26.6	25.4	27.0	25.8
RoCE (%)	26.0	24.6	26.2	25.2

Source: Company; Sharekhan estimates

Weak macro environment affects earnings

TCI Express Limited (TCI) reported lower-than-expected performance for Q3FY2023. Standalone revenue increased 9.6% y-o-y to Rs. 314 crores, led entirely by volume growth of 10% y-o-y while it could not take price hike during the quarter. Lower utilisation (83% vs 85% in Q2FY2023) owing to 75-76% utilization levels during a week in the festive month of October and general weakness in rural and manufacturing sectors led to revenue miss. The operating profit margin (OPM) at 14.7% (down 179bps y-o-y, down 196bps q-o-q) too came in lower than our estimate of 17% owing to lower utilisation and lower gross margins (lower more than 160 bps both y-o-y and q-o-q). Consequently, operating profit/net profit declined by 2.3%/8.8% y-o-y to Rs. 46.1 crore/Rs. 32 crore (much lower than our estimate).

Key Conference Call Takeaways

- **Guidance:** It lowered FY2023 revenue growth guidance to 16-17% y-o-y from 18-20% earlier, while OPM is expected to remain flat. However, it retained its volume and revenue growth guidance to 18% and 20% y-o-y for FY2024. It trimmed down its FY2025 revenue growth guidance to Rs. 1900 crore (Rs. 2000 crore earlier) and OPM to 19-20% (20% earlier). It would target an OPM of 17.5% to 18% for Q4FY2023 and 18% to 19% for FY2024.
- **Q3FY2023 performance:** The company reported 10% y-o-y revenue growth to Rs. 314 crores which was entirely driven by volume growth (up 10% y-o-y to 2.53 lakh tonnes while it did not undertake any price rise. Utilisation levels dropped during the festive season (October saw 75-76% utilisation in the festive week), leading to average of 83% utilisation for Q3FY2023 compared to 85% in Q2FY2023. Rural and manufacturing demand remained weak in Q3. OPM contracted by 179bps y-o-y (-196bps q-o-q) at 14.7% on account of lower utilisation and higher administrative expenses.
- **Sorting centre update:** It will finalise automation at the Pune centre by FY2024. Post that, it would automate Chennai, Kolkata, Bangalore and Mumbai sorting centres over 3-4 years.
- **New businesses:** New services viz. Pharma cold chain, rail express and C2C express along with air express, comprised 18% of revenues in Q3FY2023 versus 15% in Q3FY2022. It targets to increase contribution to 25% of revenues in FY2025. The rail business expanded to 125 routes from 10 routes while it generated OPM of 18-20%.
- **Branch additions:** It added 7 branches in Q3FY2023 taking to 28 branch additions during 9MFY2023. It would target 40 plus new branch additions for FY2023, while from next year, it would target 100 branch additions per annum.
- **Capex:** The capex for 9MFY2023 stood at Rs. 99 crores (including Rs. 20 crores spent on land purchase for Kolkata sorting centre, Rs. 45 crore cost of land for Gurugram corporate office and advance for Ahmedabad land).
- **CFOs:** It generated Rs. 95 crores cash flows from operations during 9MFY2023.
- **Buyback:** It completed a buy-back of 1,82,500 equity shares for Rs. 41 crores.

Results — **Rs cr**

Particulars	Q3FY2023	Q3FY2022	Y-o-Y %	Q2FY2023	Q-o-Q %
Net sales	**314.4**	**286.9**	**9.6%**	**309.9**	**1.5%**
Other income	1.3	2.1	-37.2%	2.3	-42.7%
Total income	315.7	289.0	9.2%	312.2	1.1%
Total expenses	268.3	239.7	11.9%	258.4	3.8%
Operating profit	**46.1**	**47.2**	**-2.3%**	**51.5**	**-10.5%**
Depreciation	4.3	2.2	92.4%	3.5	22.9%
Interest	0.4	0.2	131.6%	0.4	25.7%
Profit Before Tax	**42.7**	**46.8**	**-8.9%**	**49.9**	**-14.5%**
Taxes	10.6	11.7	-9.2%	12.1	-12.3%
PAT	32.0	35.1	-8.8%	37.8	-15.3%
Adjusted PAT	**32.0**	**35.1**	**-8.8%**	**37.8**	**-15.3%**
EPS (Rs.)	8.3	9.1	-8.8%	9.8	-15.3%
			BPS		**BPS**
OPM (%)	14.7%	16.4%	-179	16.6%	-196
NPM (%)	10.2%	12.2%	-206	12.2%	-201
Tax rate (%)	24.9%	25.0%	-8	24.3%	64

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 a 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 the 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.

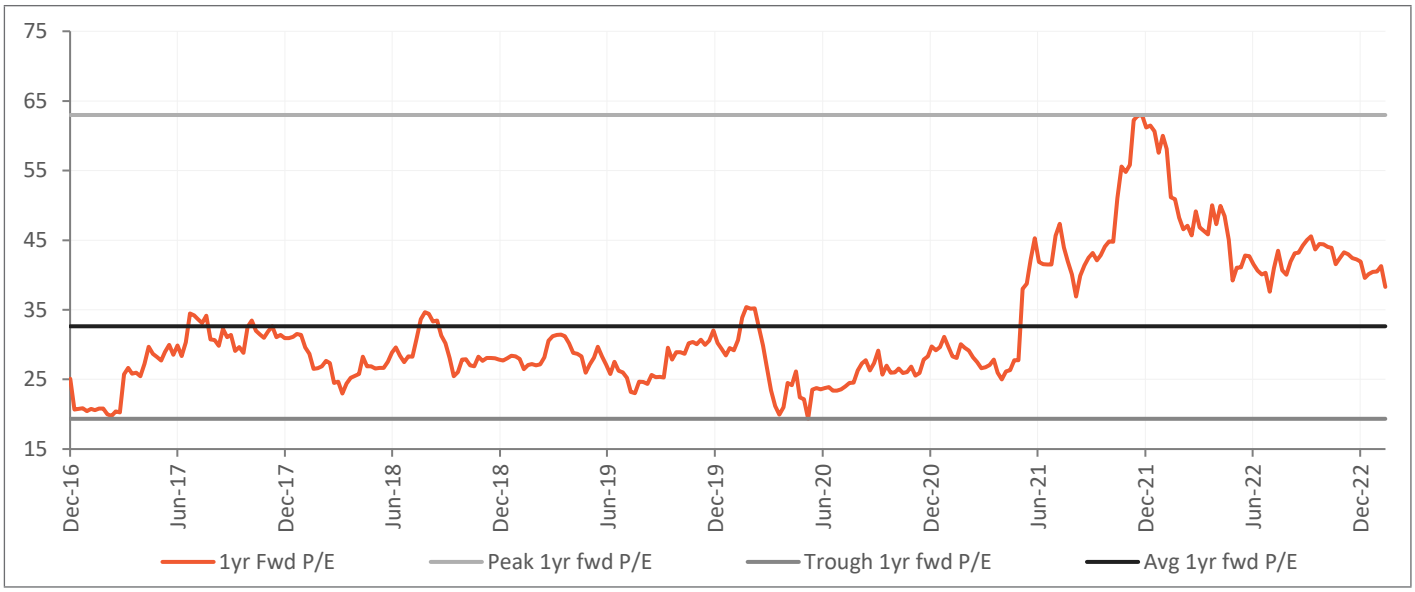
■ Company Outlook – Profitable growth outlook

The management is optimistic about the growth outlook over the next two years, expecting strong demand from the SME segment (which comprises almost 50% of revenue). The company expects to achieve 20% y-o-y revenue growth for FY2024. 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. The company targets to reach Rs. 1,900 crores in revenue and OPM of 19-20% in FY2025.

■ Valuation – Retain Buy with a revised PT of Rs. 2,070

TCI has been affected by a sluggish macro environment during Q3FY2023 although is expected to have relatively fared well compared to its peers. We expect the company to stay firm on its revenue growth trajectory and margin expansion over the next two years setting aside the near-term weakness currently felt. The continuous expansion by setting up of new sorting centers and automation of existing centers, addition of new branches and scale up of new businesses would provide more than 20% net earnings CAGR over FY2023E-FY2025E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. TCI has corrected over 10% over the trailing four months, which we believe provides an opportunity to invest. Hence, we retain Buy with a 12 months revised price target (PT) of Rs. 2,070 owing to marginally downwardly revised estimates and lower valuation multiple to factor in current macro sluggishness.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Mahindra Logistics	59.9	35.8	11.6	9.1	4.7	4.1	9.1	13.6
TCI Express	46.5	37.1	33.0	26.3	11.2	8.9	25.4	27.0

Source: 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 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 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 the 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	44.47
2	TCI TRADING	6.48
3	Canara Robeco Asset Management Co	4.50
4	Chamaria Sushma	2.65
5	Agarwal Vineet	2.59
6	Agarwal Priyanka	2.54
7	Agarwal Urmila	2.41
8	Agarwal Chander	2.39
9	Sundaram Asset Management Co Ltd	1.54
10	HDFC Asset Management Co Ltd	1.16

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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