Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

TCI Express Ltd

Eyeing profitability over volume growth

Logistics	Sharekhan code: TCIEXP
Reco/View: Buy ↔	CMP: Rs. 1,525 / Price Target: Rs. 1,900 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We retain a Buy on TCI with a revised price target (PT) of Rs. 1,900 led by a marginal downward revision in earnings and valuation multiples to factor in near term growth sluggish in the logistics sector.
- Earnings slightly missed the mark in Q1FY2024 as certain end-user industries gets hit by lower demand. OPMs inched up y-o-y despite a challenging environment.
- Company lowered revenue growth guidance for FY2024 to 12-14% as it focuses on profitable growth. It largely retained its FY2025 revenue target of over Rs. 1750 crore.
- Capex plan of Rs. 500 crore over FY2023-FY2028 stays intact towards investment in sorting centres and automation.

TCI Express Limited (TCI) reported a marginal miss on earnings in Q1FY2024. Standalone revenues increased 5% y-o-y to Rs. 305 crores, as the quarter was impacted by low demand in certain sectors like fashion, lifestyle products and electronics (although the Auto, Engineering and Pharma segments did well). OPM at 15.2% (up 48 bps y-o-y) came in marginally below our estimate of 15.6%. The improvement in OPMs y-o-y was aided by a 15 bps benefit derived from Gurgaon automation, price hike of 75-100 bps and higher fill factor at 83.5%. Consequently, operating profit/net profit rose by 8.4%/4.3% y-o-y to Rs. 46.4 crore/ Rs. 32.3 crores (marginally lower than our estimates). The company trimmed its FY2024 revenue growth guidance to 12-14% (earlier 17-18%) as it would be focusing on profitable growth (50-75 bps y-o-y expansion in OPM). For FY2025, it retained its revenue target of over Rs. 1750 crore (earlier Rs. 1750 crore to Rs. 1800 crore) while targets OPM of 17.5-18%. It also retained its Rs. 500 crore capex plan during FY2023 to FY2028 (Rs. 125 crore incurred in FY2023) majorly in sorting centres and automation.

Key positives

- OPM improved 48 bps y-o-y in a challenging environment led by automation, price hikes and higher fill factor.
- Contribution from newly launched services increased to 17% from 15% a year ago.

Key negatives

- Macro environment remained weak, leading to lower revenue growth of 5% y-o-y.
- FY2024 revenue growth guidance trimmed as it would focus on quality of growth

Management Commentary

- The management trimmed its y-o-y revenue growth guidance to 12-14% for FY2024 from earlier 17-18%. It targets to improve OPMs by 50-75 bps y-o-y in FY2024. It broadly retained its FY2025 revenue targets of over Rs. 1750 crore (earlier Rs. 1750 crore to Rs. 1800 crore). It targets OPM of 17.5-18% in FY2025.
- Management will undertake price hikes of 2% for the year, of which 75-100 basis point was done during Q1 and rest rate hike will be done in subsequent quarters.
- TCI Express will incur a capex of Rs. 90-100 crore for FY24, while the five year capex target remains around Rs 500 crores by the end of FY28.

Revision in estimates – We have marginally lowered our earnings estimates for FY2024-FY2025 factoring lower volume growth.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,900: TCI has been affected by a sluggish macro environment although it has performed well vis-à-vis industry peers. The company remains on track on achieving profitable growth although some amount of volumes gets sacrificed in the near term. In a competitive environment, it has still been able to take price hikes commanding premium vis-à-vis peers. 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 a 20% net earnings CAGR over FY2023-FY2025E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity and high return ratios. We retain a Buy with a revised price target (PT) of Rs. 1,900 led by marginal downward revision in earnings and valuation multiple to factor in near term growth sluggish in the logistics sector.

Key Risks

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

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,081.5	1,241.0	1,417.7	1,656.6
OPM (%)	16.2	15.7	16.7	17.8
Adjusted PAT	128.9	139.3	168.8	209.8
% YoY growth	28.1	8.1	21.2	24.3
Adjusted EPS (Rs.)	33.5	36.4	44.1	54.7
P/E (x)	45.6	41.9	34.6	27.8
P/B (x)	10.8	9.7	7.9	6.4
EV/EBITDA (x)	32.9	29.6	24.3	19.5
RoNW (%)	26.6	24.6	25.5	25.7
RoCE (%)	26.0	24.4	24.7	25.1

Source: Company; Sharekhan estimates

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		↔	

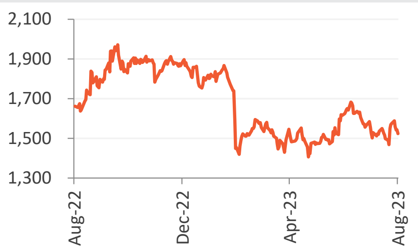
Company details

Market cap:	Rs. 5,843 cr
52-week high/low:	Rs. 2010/1384
NSE volume: (No of shares)	0.9 lakh
BSE code:	540212
NSE code:	TCIEXP
Free float: (No of shares)	1.2 cr

Shareholding (%)

Promoters	69.7
FII	2.3
DII	10.2
Others	17.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.0	3.2	7.4	-8.3
Relative to Sensex	-2.3	-3.2	-1.2	-20.8

Sharekhan Research, Bloomberg

Marginally miss on earnings

Net revenues grew by 5% y-o-y (down 6.6% q-o-q) to Rs. 305 crore which was 4% below our estimate. The growth was primarily driven by demand from MSMEs and Corporates. The company reported broadly in-line operating margin at 15.2% (up 48 bps y-o-y, down 138 bps q-o-q) as against our estimate of 15.6%. The y-o-y improvement in OPMs was led by higher gross margins (up 63 bps q-o-q to 31.4%). Hence, operating profit grew by 8.4% y-o-y (down 14.3% q-o-q) to Rs. 46.4 crore which was 6% lower than our estimate. Higher depreciation (up 38% y-o-y, up 9.5% q-o-q) led to standalone net profit growth of just 4% y-o-y (down 15.9% q-o-q) at Rs 32.3 crore, which was 7% lower than estimate.

Key Conference Call Takeaways -

- **Revenue guidance:** The management trimmed down its y-o-y revenue growth guidance to 12-14% for FY2024 from earlier 17-18%. It targets to improve OPMs by 50-75 bps y-o-y in FY2024. The management broadly retained its FY2025 revenue targets of over Rs. 1750 crore (earlier Rs. 1750 crore to Rs. 1800 crore). It targets OPM of 17.5-18% in FY2025.
- **Outlook:** The management remain conservative in its approach and gives importance to profitability over growth. Pharma remains price sensitive while Auto sector continues to see growth.
- **Margins improved due to automation:** The automation for the company has resulted in improved margins of 15 bps and truck utilisation of 84-85% have further added 15 bps to margins during the quarter. The new center in Pune is expected to be fully automated by FY24.
- **Price Hike:** The management is expecting price hikes of 2% for the year, of which 75-100 basis point was done during Q1 and rest rate hike will be done in subsequent quarters.
- **Volume:** The volumes during the quarter was around 240 kt.
- **Segmental growth:** Railway business is expected to register 30% growth for rest of the year as rail, as the company is getting good traction and competitive advantage against its peers, resulting in better offering to customers. During Q1FY24, the railways business grew at 20%. C2C business rose at 20% and is likely to maintain grow at 18-20% for rest of the year.
- **Capex:** Management will be incurring capex of around Rs. 90-100 crore for FY24, while the five year capex target remains around Rs 500 crores by the end of FY28. The management plans to open up around 70-75 branches in FY24, while for the Q1FY2024 capex stood around Rs 3.9 Crore.

Results Rs cr

Particulars	Q1FY24	Q1FY23	y-o-y %	Q4FY23	q-o-q %
Net sales	**304.9**	**290.4**	**5.0%**	**326.3**	**-6.6%**
Other income	1.5	1.9	-23.3%	1.7	-11.4%
Total income	306.4	292.4	4.8%	327.9	-6.6%
Total expenses	258.5	247.7	4.4%	272.1	-5.0%
Operating profit	**46.4**	**42.8**	**8.4%**	**54.1**	**-14.3%**
Depreciation	4.6	3.3	38.1%	4.2	9.5%
Interest	0.4	0.3	34.5%	0.7	-47.3%
Profit Before Tax	**42.9**	**41.1**	**4.3%**	**50.9**	**-15.7%**
Taxes	10.5	10.1	4.5%	12.4	-15.1%
PAT	32.3	31.0	4.3%	38.5	-15.9%
Adjusted PAT	**32.3**	**31.0**	**4.3%**	**38.5**	**-15.9%**
EPS (Rs.)	8.4	8.1	4.3%	10.0	-15.9%
			BPS		**BPS**
OPM (%)	15.2%	14.7%	48	16.6%	-138
NPM (%)	10.6%	10.7%	-7	11.8%	-118
Tax rate (%)	24.6%	24.5%	4	24.4%	17

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 on growth outlook over the next two years, expecting strong demand from the SME segment (which comprises almost 50% of revenues). The company expects to achieve 12-14% y-o-y revenue growth for FY2024. On the OPM front, it expects to continue aiming for a 50-75 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 over Rs. 1,750 crores in revenue and OPM of 17.5% in FY2025.

Valuation - Retain Buy with a revised PT of Rs. 1,900

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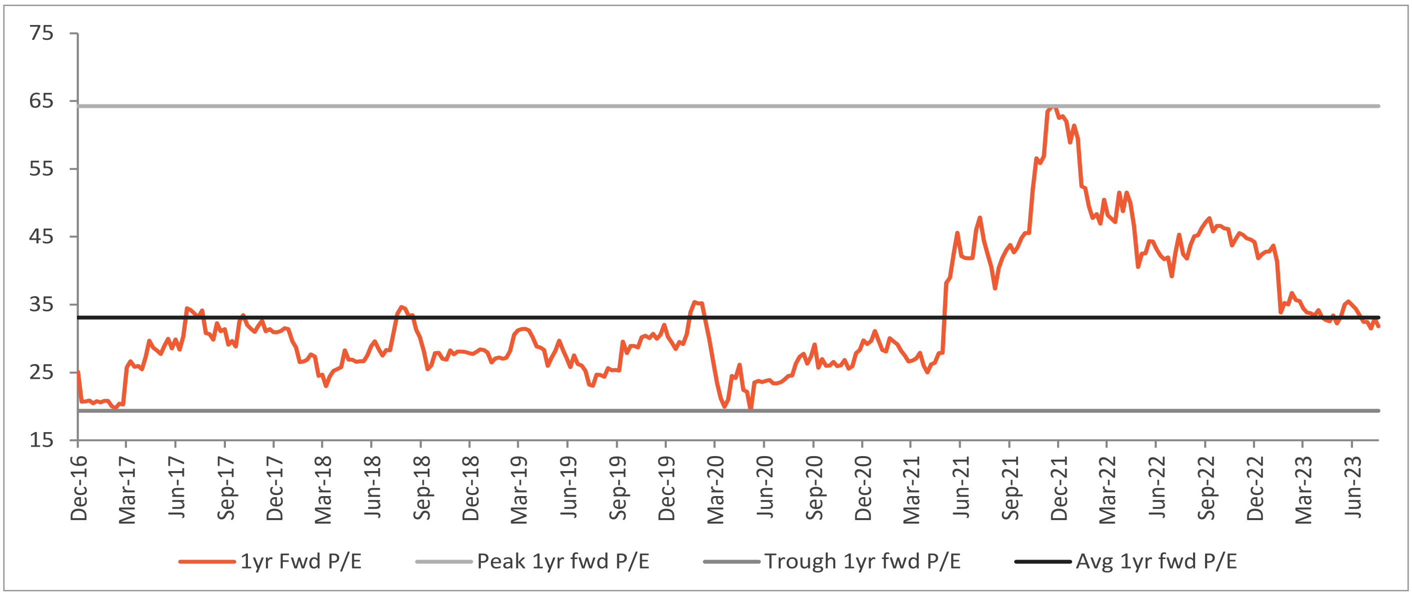
One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Mahindra Logistics	-	35.7	7.2	5.6	4.0	3.6	2.9	11.9
TCI Express	34.6	27.8	24.3	19.5	7.9	6.4	25.5	25.7

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 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

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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