



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	✓	↔	✓

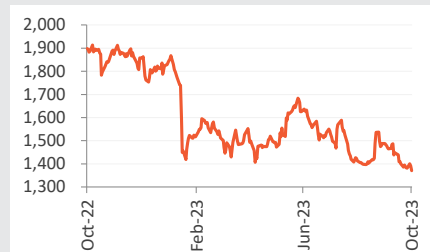
Company details

Market cap:	Rs. 5,254 cr
52-week high/low:	Rs. 1980/1364
NSE volume: (No of shares)	0.9 lakh
BSE code:	540212
NSE code:	TCIEXP
Free float: (No of shares)	1.2 cr

Shareholding (%)

Promoters	69.6
FII	3.0
DII	8.8
Others	18.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.9	-11.1	-9.9	-27.8
Relative to Sensex	-5.4	-9.7	-20.2	-39.5

Sharekhan Research, Bloomberg

TCI Express Ltd

Increasing confidence on growth revival

Logistics

Sharekhan code: TCIEXP

Reco/View: Buy



Upgrade



CMP: Rs. 1,371

Price Target: Rs. 1,900



Downgrade

Summary

- We retain a Buy on TCI with an unchanged price target (PT) of Rs. 1,900, factoring marginal downward revision in estimates while rolling forward our valuation multiple to September 2025 earnings.
- Earnings slightly missed the mark in Q2FY2024 although a sequential recovery in revenue growth and OPMs in a muted demand environment is well taken. It has undertaken a 1.5% price hike during Q2FY2024 till date.
- Company retained FY2024 guidance expecting strong H2FY2024. It retained a Rs. 1,750 crore revenue target for FY2025 although Rs. 2000 crore in revenues cannot be ruled out. It is looking at M&A deals.
- Automation at Pune on track by March 2024. Target 25-30 new branch additions in H2. Capex for FY2024 and FY2025 at Rs. 80 crore and Rs. 100 crore, remain unchanged.

TCI Express Limited (TCI) reported a marginal miss on earnings in Q2FY2024. Standalone revenues increased 3.3% y-o-y to Rs. 320 crore, led by steady demand from MSME sectors (demand from Auto and Pharma stable while garments, lifestyle and consumer durables demand seen improving). OPM at 15.8% (down 85 bps y-o-y) came in marginally below our estimate of 16.2%. The improvement in OPMs q-o-q was aided by acceleration of automation, price hike of 1% undertaken in Q2FY2024 and higher fill factor at 84%. Consequently, operating profit/net profit rose by 8.8%/10.1% y-o-y to Rs. 50.5 crore/Rs. 35.6 crore (marginally lower than our estimates). The company retained its volume growth guidance of 10-12% y-o-y for FY2024 (revenue growth guidance of 12-14%), while it expects OPMs to tread higher in H2FY2024 (50-75 bps y-o-y expansion in OPM for FY2024). For FY2025, it retained its revenue target of over Rs. 1750 crore although it didn't rule out possibility of achieving Rs. 2000 crore in revenues, which was much earlier targeted. Overall, the management remained quite confident of improving demand from end-user sectors over the next 2-3 years.

Key positives

- Sequential growth in revenues and OPMs in a muted manufacturing led demand environment led by automation, price hikes and a higher fill factor.
- Contribution from newly launched services increased to 17% from 15.5% a year ago.

Key negatives

- Branch additions stood at 12 for H1FY2024 due to muted demand environment.
- Lower capex of Rs. 21 crore incurred in H1 as against target of Rs. 80 crore for FY2024.

Management Commentary

- The management retained its FY2024 volume growth guidance (10-12% y-o-y) expecting strong growth in H2FY2024. The OPMs are expected to improve in H2FY2024. The earlier revenue target of Rs. 2000 crore in FY2025 (versus guidance of Rs. 1750 crore) cannot be ruled out (it is also eyeing M&A deals).
- It had taken a 1% price hike in Q2FY2024 and has taken 0.5% hike in Q3FY2024 till date. It targets 2% price hike for FY2024.
- Contribution of revenues from newly launches services is expected to be 25% of the total revenues over the next couple of years. The same is expected to comprise 50% over 6-7 years.

Revision in estimates – We have marginally lowered our earnings estimates for FY2024-FY2025 factoring marginally lower volumes and OPM.

Our Call

Valuation – Retain Buy with an unchanged 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. We have introduced our FY2026E earnings in this note. The continuous expansion by setting up new sorting centers and automation of existing centers, addition of new branches and scale up of new businesses would provide 20% net earnings CAGR over FY2023-FY2026E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity and high return ratios. We retain a Buy with an unchanged price target (PT) of Rs. 1,900 factoring marginal downward revision in estimates while rolling forward our valuation multiple to September 2025 earnings.

Key Risks

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

Valuation

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	1,241.0	1,392.4	1,627.0	1,887.4
OPM (%)	15.7	16.3	17.6	18.1
Adjusted PAT	139.3	159.7	202.5	241.3
% YoY growth	8.1	14.6	26.8	19.1
Adjusted EPS (Rs.)	36.4	41.6	52.8	62.9
P/E (x)	37.7	32.9	25.9	21.8
P/B (x)	8.7	7.2	5.9	4.8
EV/EBITDA (x)	26.5	22.7	18.0	15.1
RoNW (%)	24.6	24.3	25.3	24.4
RoCE (%)	24.4	23.6	24.6	23.9

Source: Company; Sharekhan estimates

Earnings marginally miss mark

Net revenues grew by 3.3% y-o-y (up 5% q-o-q) to Rs. 320 crore which was 2% below our estimate. The growth was primarily driven by demand from MSMEs. The company reported a marginally lower operating margin at 15.8% (down 85 bps y-o-y, up 55 bps q-o-q) as against our estimate of 16.2%. The q-o-q improvement in OPMs was led by higher gross margins (up 35 bps q-o-q to 31.8%). Operating profit declined by 2% y-o-y (up 8.8% q-o-q) to Rs. 50.5 crore which was 4% lower than our estimate. Higher depreciation (up 35% y-o-y, up 2.6% q-o-q) led to standalone net profit decline of 5.8% y-o-y (up 10.1% q-o-q) at Rs 35.6 crore, which was 3% lower than estimate. It remains on track to complete the automation of Pune sorting center by March 2024. H1FY2024, it incurred a total capex of Rs. 21 crore which has been primarily spent towards expansion of branch networks, automation, and construction of the sorting center. It added 12 new branches during H1FY2024.

Key Conference Call Takeaways -

- ♦ **Guidance:** The management retained its FY2024 volume growth guidance (10-12% y-o-y) expected strong growth in H2FY2024. OPMs are expected to improve in H2FY2024 (target of increasing OPMs by 50-75 bps y-o-y in FY2024). Earlier revenue target of Rs. 2000 crore in FY2025 (versus guidance of Rs. 1750 crore) cannot be ruled out (it is also eyeing M&A deals). OPM target for FY2025 is 17.5-18%.
- ♦ **Price hikes:** It had taken a 1% price hike in Q2FY2024 and has taken 0.5% hike in Q3FY2024 till date. It targets 2% price hike for FY2024.
- ♦ **New services:** Contribution of revenues from newly launches services is expected to be 25% of the total revenues over the next couple of years. The same is expected to comprise 50% over 6-7 years. Contribution of new services has increased from 15.5% in Q2FY2023 to 17% in Q2FY2024. Air and rail express business has slightly higher margins than surface business. It has shared/reallocated manpower resources towards new services.
- ♦ **Outlook:** Demand from pharma and auto sectors (major business providers) remain stable. Garments and Lifestyle which had not grown in H1 has started to grow. Consumer Durables is expected to grow. New sectors like Bathware and Kitchenware are emerging and providing business. October month crossed 85% capacity utilisation from ~84% in Q2FY2024.
- ♦ **Q2FY2024 performance:** Net revenues for Q2FY2024 was up 3.3% y-o-y and 5% q-o-q at Rs. 320 crore led by demand from MSME sector, which has witnessed strong uptick in the last few quarters. The volumes for Q2FY2024 was 2.52 lakh tonnes. OPMs improved 55 bps q-o-q (down 85 bps y-o-y) to 15.8% driven by sequential improvement in revenues and acceleration of automation. The net profit grew 10.1% q-o-q (down 5.8% y-o-y) to Rs. 35.6 crore.
- ♦ **New appointment:** The company has appointed Mr. Hemant Srivastava as Chief Operating Officer of Express Businesses (Non-Surface). He has had a distinguished career spanning two decades at the TCI Group, and has undertaken diverse and impactful roles in finance and management, including positions as Zonal Manager and Regional Express Manager.
- ♦ **Automation:** The company is on track to complete the automation at its Pune sorting center by March 2024.
- ♦ **Branch additions:** TCI Express added 12 new branches in H1FY2024 and targets to add another 25-30 new branches in H2FY2024.
- ♦ **Capex:** It incurred capex of Rs. 21 crore in H1FY2024 and expects to incur Rs. 60 crore capex in H2FY2024. The capex for FY2025 is estimated at Rs. 100 crore which will be funded through internal accruals.

Results

Rs cr

Particulars	Q2FY24	Q2FY23	y-o-y %	Q1FY24	q-o-q %
Net sales	320.0	309.9	3.3%	304.9	5.0%
Other income	1.8	2.3	-22.0%	1.5	19.6%
Total income	321.8	312.2	3.1%	306.4	5.0%
Total expenses	269.5	258.4	4.3%	258.5	4.3%
Operating profit	50.5	51.5	-2.0%	46.4	8.8%
Depreciation	4.7	3.5	35.2%	4.6	2.6%
Interest	0.4	0.4	0.0%	0.4	-10.3%
Profit Before Tax	47.2	49.9	-5.5%	42.9	10.0%
Taxes	11.6	12.1	-4.5%	10.5	9.8%
PAT	35.6	37.8	-5.8%	32.3	10.1%
Adjusted PAT	35.6	37.8	-5.8%	32.3	10.1%
EPS (Rs.)	9.3	9.9	-5.8%	8.4	10.1%
OPM (%)	15.8%	16.6%	-85 bps	15.2%	55 bps
NPM (%)	11.1%	12.2%	-107 bps	10.6%	51 bps
Tax rate (%)	24.5%	24.3%	25 bps	24.6%	-5 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 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 on the sector.

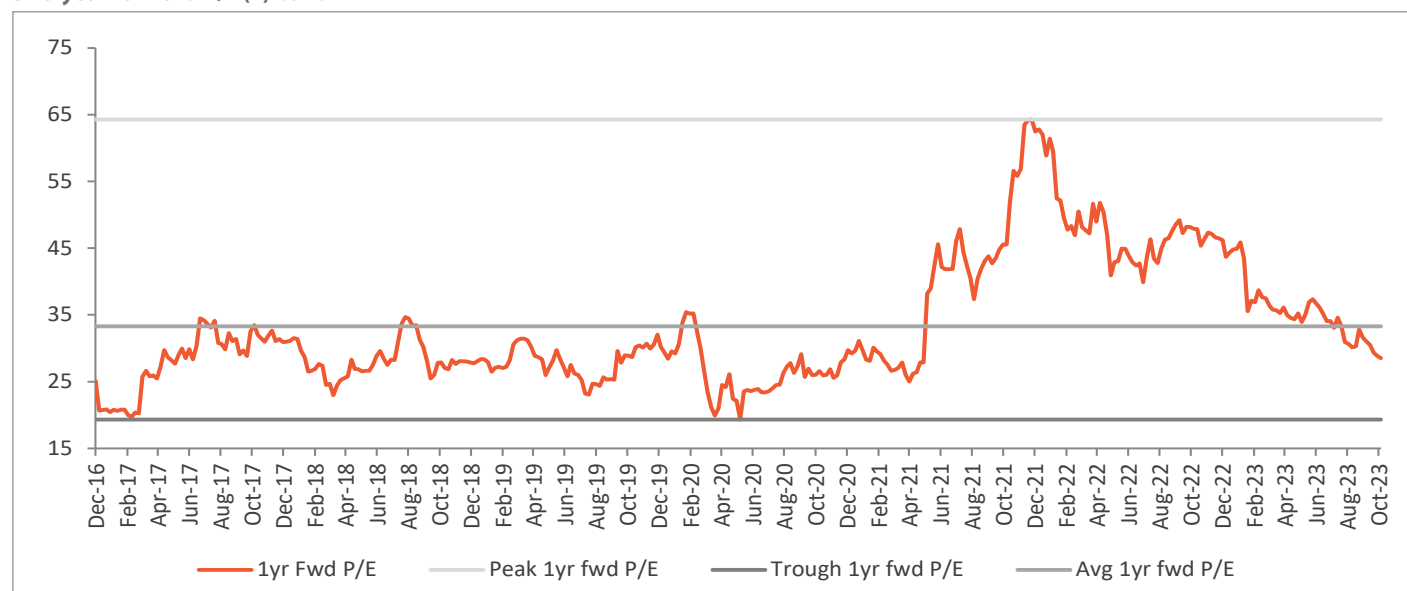
■ Company outlook - Profitable growth outlook

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 crore in revenue and OPM of 17.5% in FY2025.

■ Valuation - Retain Buy with an unchanged PT of Rs. 1,900

Net revenues grew by 3.3% y-o-y (up 5% q-o-q) to Rs. 320 crore which was 2% below our estimate. The growth was primarily driven by demand from MSMEs. The company reported a marginally lower operating margin at 15.8% (down 85 bps y-o-y, up 55 bps q-o-q) as against our estimate of 16.2%. The q-o-q improvement in OPMs was led by higher gross margins (up 35 bps q-o-q to 31.8%). Operating profit declined by 2% y-o-y (up 8.8% q-o-q) to Rs. 50.5 crore which was 4% lower than our estimate. Higher depreciation (up 35% y-o-y, up 2.6% q-o-q) led to standalone net profit decline of 5.8% y-o-y (up 10.1% q-o-q) at Rs 35.6 crore, which was 3% lower than estimate. It remains on track to complete the automation of Pune sorting center by March 2024. H1FY2024, it incurred a total capex of Rs. 21 crore which has been primarily spent towards expansion of branch networks, automation, and construction of the sorting center. It added 12 new branches during H1FY2024.

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	166.7	37.7	7.7	6.0	4.2	3.8	2.9	11.9
TCI Express	32.9	25.9	22.7	18.0	7.2	5.9	24.3	25.3

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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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 deteriorating 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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022 - 41523200/022 - 69920600