



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	■	↔	■

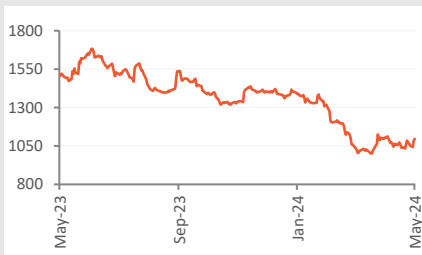
Company details

Market cap:	Rs. 4,202 cr
52-week high/low:	Rs. 1,699/998
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	2.4
DII	8.9
Others	19.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.5	-14.0	-18.2	-27.2
Relative to Sensex	2.7	-16.3	-30.1	-44.5

Sharekhan Research, Bloomberg

TCI Express Ltd

Weak Q4 as expected; Retain BUY

Logistics	Sharekhan code: TCIEXP		
Reco/View: Buy	↔	CMP: Rs. 1,096	Price Target: Rs. 1,410
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a BUY on TCI Express with a revised PT of Rs. 1,410, factoring in downward revision of estimates and expecting a revival in growth from FY2025.
- Q4FY2024 numbers were weak, as both revenue and OPM missed estimates. However, it has been able to maintain gross margin over the trailing four quarters despite a weak demand environment.
- The company would be eyeing 10-12% y-o-y revenue growth for FY2025, aided by the expected price increase of 1.5-2% y-o-y. The company may try 100bps y-o-y OPM expansion.
- The company's planned capex of Rs. 500 crore over FY2023-FY2027 remains on track with a balance capex of Rs. 329 crore to be incurred during FY2025-FY2027.

TCI Express reported marginally lower standalone revenue at Rs. 317 crore, down 2.8% y-o-y, owing to a 2% y-o-y decline in overall tonnage volumes to 2.58 lakh tonne. Further, standalone OPM at 14.1% (down 245 bps y-o-y) came in lower than our estimate of 15% mainly led by higher-than-expected other expenses (driven by CSR-related expenses). Hence, standalone operating profit at Rs. 44.8 crore, down 17.2%, came in 9% lower than our estimate. The decline in revenue and OPM led to standalone net profit declining by 17.8% y-o-y at Rs. 31.6 crore (8% lower than our estimate). As per management, volumes will remain flat during Q1FY2025 till May 2024, but it expects pick-up during the course of the year. Consequently, it would be eyeing 10-12% y-o-y revenue growth for FY2025, aided by the expected price increase of 1.5-2% y-o-y. OPM may remain flat y-o-y, although it would try to increase by 100 bps y-o-y during FY2025. The company's planned capex of Rs. 500 crore over FY2023-FY2027 remains on track with the balance capex of Rs. 329 crore to be incurred during FY2025-FY2027.

Key positives

- It was able to maintain gross margins over the trailing four quarters despite a muted demand environment.
- It completed automation at the Pune sorting centre. Planned capex of Rs. 500 crore over FY2023-FY2027 remains intact.

Key negatives

- Tonnage volumes reported a 2% y-o-y decline, leading to revenue declining by 2.8% y-o-y.
- Standalone OPM at 14.1% lagged estimates mainly due to higher other expenses led by CSR spending.

Management Commentary

- The company expects 10-12% revenue growth for FY2025. It is expected to initiate a price hike of 1.5-2% during FY2025. It expects engineering goods and pharma to improve during FY2025 while it is not so optimistic about the lifestyle and textile sectors.
- It has incurred Rs. 170 crore capex over the trailing two years. The balance Rs. 329 crore capex would be incurred during FY2025-FY2027.
- It would commence construction on Ahmedabad and Kolkata sorting centres in FY2025 and complete it in FY2026.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2026, factoring in lower volumes and OPM.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 1,410: TCI has been affected by a sluggish macro environment, although it has performed well vis-à-vis industry peers. The company remains on track to achieve profitable growth, although some volume gets sacrificed in the near term. 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 an 18% net earnings CAGR over FY2024-FY2026E. Further, TCI has a strong balance sheet, healthy cash flow-generation capacity, and high return ratios. We retain our BUY rating on the stock with a revised price target (PT) of Rs. 1,410, factoring in the downward revision in estimates and expecting a growth revival from FY2025.

Key Risks

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

Valuation	Rs cr			
Particulars	FY23	FY24	FY25E	FY26E
Revenue	1,241.0	1,253.8	1,399.9	1,599.2
OPM (%)	15.7	14.9	15.8	16.5
Adjusted PAT	139.3	131.7	154.3	183.4
YoY growth (%)	8.1	(5.4)	17.2	18.8
Adjusted EPS (Rs.)	36.4	34.4	40.3	47.8
P/E (x)	30.1	31.9	27.2	22.9
P/B (x)	7.0	5.9	5.1	4.3
EV/EBITDA (x)	21.1	22.0	18.6	15.6
RoNW (%)	24.6	20.3	20.2	20.5
RoCE (%)	24.4	20.0	19.5	19.9

Source: Company; Sharekhan estimates

Key Conference call takeaways

- ◆ **Guidance:** The company expects 10-12% revenue growth for FY2025. It is expected to initiate a price hike of 1.5-2% during FY2025.
- ◆ **Outlook:** Consumption began to taper off from Q3FY2024, while cash was pulled out of the market. Price rise at the ground level has impacted overall consumption. Textiles and electronics have not been growing. There were higher inventory levels at showrooms. Except auto, other sectors such as lifestyle, pharma, and engineering are facing challenges. It expects engineering goods and pharma to improve during FY2025, while it is not so optimistic about the lifestyle and textile sectors. The company would focus on solar and defence sectors. The company wants to capture the B2B opportunity in the e-commerce segment. Volumes have remained flat during Q1FY2025 till May 2024.
- ◆ **Q4FY2024 performance:** Revenue stood at Rs. 320 crore and EBITDA stood at Rs. 47 crore with EBITDA margin of 15%. Truck utilisation for Q4FY2024 was 83.5% and that for FY2024 was 84%. The company added 10 branches in Q4FY2024 and 25 branches in FY2024. Volumes for Q4FY2024 were 2.58 lakh tonne (down 2% y-o-y) and 1 million tonne for FY2024. Expenditure towards CSR was Rs. 3.5 crore in FY2024. The company had undertaken a price hike of 0.5-0.75% during Q1FY2024.
- ◆ **Sorting centres:** The company completed automation of the 1.4-lakh sq. ft. Pune sorting centre during March 2024. It would start work in Ahmedabad, Kolkata, Mumbai, and Chennai. It would commence construction on Ahmedabad and Kolkata sorting centres in FY2025 and complete them in FY2026.
- ◆ **Capex:** It did a capex of Rs. 46 crore (Rs. 25 crore towards machinery, Rs. 15 crore towards expansion of branches, and Rs. 5 crore towards technology) during FY2024. It has incurred Rs. 170 crore capex over the trailing two years. The balance capex of Rs. 329 crore would be incurred during FY2025-FY2027.
- ◆ **Rail express:** It has a customer base of 4,500 and is operating 125 routes.
- ◆ **Cold chain:** It would focus only on pharma. It has an outsourced model for operations.
- ◆ **Other highlights:** The share of big customers and SME was 51:49 in Q4FY2024 and 50:50 in FY2024. The share of B2B and B2C is 97:3.

Results

Particulars	Q4FY2024	Q4FY2023	y-o-y%	Q3FY2024	q-o-q%
Net sales	317.1	326.3	-2.8%	311.9	1.7%
Other income	1.9	1.7	15.6%	2.0	-2.0%
Total income	319.0	327.9	-2.7%	313.8	1.7%
Total expenses	272.3	272.1	0.1%	266.3	2.2%
Operating profit	44.8	54.1	-17.2%	45.6	-1.6%
Depreciation	4.9	4.2	15.7%	4.8	1.9%
Interest	0.4	0.7	-45.9%	0.3	21.2%
Profit Before Tax	41.5	50.9	-18.4%	42.4	-2.2%
Taxes	9.9	12.4	-20.1%	10.3	-3.2%
PAT	31.6	38.5	-17.8%	32.2	-1.9%
Adjusted PAT	31.6	38.5	-17.8%	32.2	-1.9%
EPS (Rs.)	8.2	10.0	-17.8%	8.4	-1.9%
OPM (%)	14.1%	16.6%	-245 bps	14.6%	-47 bps
NPM (%)	10.0%	11.8%	-182 bps	10.3%	-36 bps
Tax rate (%)	23.9%	24.4%	-52 bps	24.2%	-25 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.

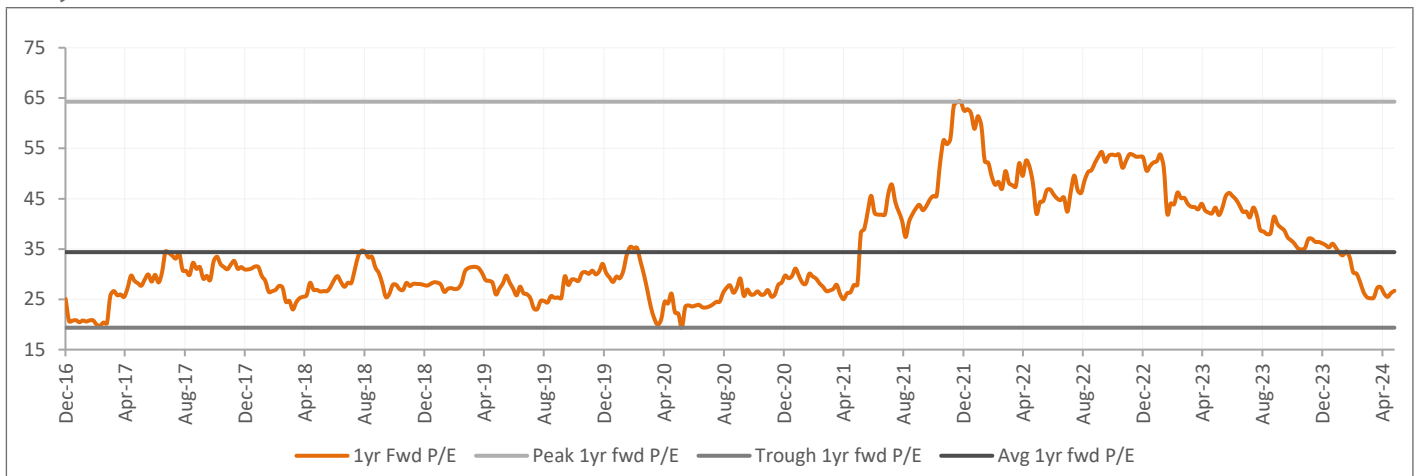
■ Company Outlook – Profitable long-term growth outlook

Management is optimistic about the long-term growth outlook, expecting strong demand from the SME segment (which comprises almost 50% of revenue). The company expects to achieve 10-12% y-o-y volume growth and 1.5-2% pricing growth during FY2025. 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 the B2B air cargo business). The company remains optimistic about growth and expects to gain market share.

■ Valuation – Retain BUY with a revised PT of Rs. 1,410

TCI has been affected by a sluggish macro environment, although it has performed well vis-à-vis industry peers. The company remains on track to achieve profitable growth, although some volume gets sacrificed in the near term. 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 an 18% net earnings CAGR over FY2024-FY2026E. Further, TCI has a strong balance sheet, healthy cash flow-generation capacity, and high return ratios. We retain our BUY rating on the stock with a revised PT of Rs. 1,410, factoring in the downward revision in estimates and expecting a growth revival from FY2025.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Mahindra Logistics	97.5	31.7	8.7	6.7	5.2	4.5	6.3	17.2
TCI Express	25.4	21.3	17.7	14.8	5.2	4.4	22.6	22.5

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. 30,000 crore (~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

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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

Sharekhan

by BNP PARIBAS

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