Sharekhan by BNP PARIBAS

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Stock Update

Result Update

TCI Express Ltd

Weak Q2; Focus on reverting to growth

Logistics	Sharekhan code: TCIEXP
Reco/View: Buy ↔	CMP: **Rs. 977**
	Price Target: **Rs. 1,250** ↓

↑ 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		↔	

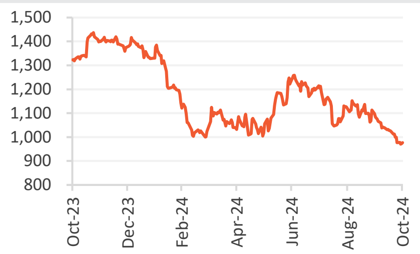
Company details

Market cap:	Rs. 3,749 cr
52-week high/low:	Rs. 1446/966
NSE volume: (No of shares)	87,661
BSE code:	540212
NSE code:	TCIEXP
Free float: (No of shares)	1.2 cr

Shareholding (%)

Promoters	69.5
FII	1.7
DII	10.1
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.9	-19.0	-10.0	-26.2
Relative to Sensex	-4.1	-16.1	-16.4	-50.4

Sharekhan Research, Bloomberg

Summary

- We retain a Buy with a revised PT of Rs. 1,250, factoring in a downward revision of estimates and expecting a revival in growth from FY2026.
- Q2FY2025 revenues lagged estimates, led by continued dip in volumes y-o-y. Negative operating leverage and lower truck utilisation led to a higher miss on OPM and net earnings.
- Company eyes mid-single digit growth in H2FY2025, while it expects to revert to double digit growth trajectory in FY2026. It expects OPMs to revert to earlier levels with a demand revival.
- Capex plan of Rs. 500 crore over FY2023-FY2027 remains intact, with balance capex of over Rs. 300 crore to be incurred during H2FY2025-FY2027.

TCI Express reported lower standalone revenue at Rs. 311.5 crore, down 2.7% y-o-y, owing to a ~1% y-o-y decline in overall tonnage volumes to 2.5 lakh tonnes, while truck utilization marginally improved by 1% q-o-q to 83% in Q2FY2025. Weak demand in auto, lifestyle, textile and some engineering companies impacted overall revenues. Further, standalone OPM at 12.2% (down 354 bps y-o-y) surprised negatively (our estimate of 13.3%) owing to rise in air freight costs, rise in toll costs, increased labour costs and relatively lower truck utilisations. Hence, standalone operating profit/net profit fell by 24.5% y-o-y/26% y-o-y to Rs. 38 crore/Rs. 26 crore (~15% lower than estimates). The management now eyes mid-single digit revenue growth in H2FY2025 (earlier expectation of double-digit revenue growth for FY2025). However, it hopes to achieve 13-15% volume growth and 1-2% pricing growth in FY2026. The improvement in OPMs would rely on higher truck utilisation, better demand and its ability to undertake price hikes. It would commence automating the Kolkata and Ahmedabad sorting centers in H2FY2025 and targets to complete in FY2026. Its retained planned capex of Rs. 500 crore over FY2023-FY2027 with the balance capex of over Rs. 300 crore to be incurred during H2FY2025-FY2027.

Key positives

- Rail express business gained traction in Q2FY2025 contributing positively to EBITDA.
- Pune sorting center is deriving operational efficiencies post automation.

Key negatives

- Tonnage volumes reported a 1% y-o-y decline, while truck utilisation marginally improved by 1% q-o-q to 83%.
- OPMs surprised negatively led by operating deleverage and inability to pass on increased costs.

Management Commentary

- Company expects mid-single digit growth in H2FY2025. It hopes for 13-15% volume growth and 1-2% pricing growth in FY2026. It anticipates demand recovery during festive season.
- It has slowed down branch additions due to weak volumes. It added only five new branches in H1FY2025 for multi-model products.
- The construction work on Kolkata and Ahmedabad centres (each 2 lakh square feet) would commence in H2FY2025 and is expected to complete in FY2026.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2027, factoring in lower volumes and OPM.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,250: TCI has been affected by sluggish macros, 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. Continuous expansion by setting up new sorting centers and automation of existing centers, addition of branches, and scale up of new businesses would provide a 16% net earnings CAGR over FY2024-FY2027E. 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. 1,250, factoring in the downward revision in estimates and expecting a growth revival from FY2026.

Key Risks

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

Valuation Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	1,253.8	1,278.9	1,461.0	1,680.2
OPM (%)	14.9	12.9	14.8	15.3
Adjusted PAT	131.7	113.2	149.0	176.3
YoY growth (%)	(5.4)	(14.0)	31.6	18.3
Adjusted EPS (Rs.)	34.4	29.5	38.9	46.0
P/E (x)	28.5	33.1	25.2	21.3
P/B (x)	5.3	4.8	4.2	3.6
EV/EBITDA (x)	19.5	22.1	16.9	14.3
RoNW (%)	20.3	15.3	17.8	18.3
RoCE (%)	20.0	14.5	17.1	17.7

Source: Company; Sharekhan estimates

Key Conference Call Takeaways -

- **Guidance:** Company expects mid-single digit growth in H2FY2025. It hopes for 13-15% volume growth and 1-2% pricing growth in FY2026. It anticipates demand recovery during festive season.
- **Q2FY25 highlights:** Standalone revenues were down 2.7% y-o-y at Rs. 311.5 crore, operating profit declined 24.5% y-o-y to Rs. 38.1 crore while PAT was down 26% y-o-y at Rs. 26.3 crore for Q2FY2025. It operated at 83% capacity utilisation as against 82% in Q1FY2025. Dip in revenues is attributable to pro-long monsoons, lower activity in manufacturing and auto along with geopolitical issues which softened the overall demand. Volumes during Q2FY2025 and H1FY2025 stood at 2.5 lakh tonnes and 4.85 lakh tonnes, respectively as against 2.52 lakh tonnes and 4.92 lakh tonnes in Q2FY2025 and H1FY2024. The utilisation levels stayed below its normal targeted levels of 84-85%. Auto, lifestyle and some engineering companies faced demand pressures.- The rise in air freights, higher toll tax, increased labour costs and lower utilisation levels impacted operating margins negatively.
- **Branch additions:** It has slowed down branch additions due to weak volumes. It added only five new branches in H1FY2025 for multi-modal products.
- **Rail express:** Its rail express business gained traction and contributed positively to EBITDA. It now has over 5000 customer base and operates on over 150 routes.
- **C2C:** The segment has seen steady but slower growth.
- **Capex:** It spent Rs. 11 crore in H1FY2025 as it was not able to crack land deals in Bengaluru, Chennai and Mumbai. It commenced its Rs. 500 crore capex plan from FY2023 and has spent Rs. 180-200 crore in two and half years. The balance Rs. 300 crore plus would be spent over next two and half years. It would be incurring Rs. 40-50 crore capex in FY2025 and Rs. 100-125 crore in FY2026.
- **Sorting centres:** The Pune sorting centre has started to see operational efficiencies post completion of automation. The construction work on Kolkata and Ahmedabad centres (each 2 lakh square feet) would commence in H2FY2025 and is expected to complete in FY2026.
- **Air freight:** The air business was impacted in Q2FY2025 led by consolidation of airlines, privatisation of airports. it was not able to pass it on the higher costs to customers due to which there was 100 bps impact on overall costs.

Results — Rs cr

Particulars	Q2FY2025	Q2FY2024	y-o-y (%)	Q1FY2025	q-o-q (%)
Net sales	**311.5**	**320.0**	**-2.7%**	**293.0**	**6.3%**
Other income	2.5	1.8	39.0%	2.3	7.9%
Total income	313.9	321.8	-2.4%	295.3	6.3%
Total expenses	273.4	269.5	1.4%	259.4	5.4%
Operating profit	**38.1**	**50.5**	**-24.5%**	**33.5**	**13.5%**
Depreciation	5.3	4.7	12.5%	5.1	4.5%
Interest	0.3	0.4	-28.6%	0.3	-7.4%
Profit Before Tax	**35.0**	**47.2**	**-25.8%**	**30.5**	**14.8%**
Taxes	8.7	11.6	-25.2%	7.4	17.8%
PAT	26.3	35.6	-26.0%	23.1	13.8%
Adjusted PAT	**26.3**	**35.6**	**-26.0%**	**23.1**	**13.8%**
EPS (Rs.)	6.9	9.3	-26.0%	6.0	13.8%
OPM (%)	12.2%	15.8%	-354 bps	11.4%	78 bps
NPM (%)	8.4%	11.1%	-267 bps	7.9%	56 bps
Tax rate (%)	24.8%	24.5%	22 bps	24.1%	63 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.

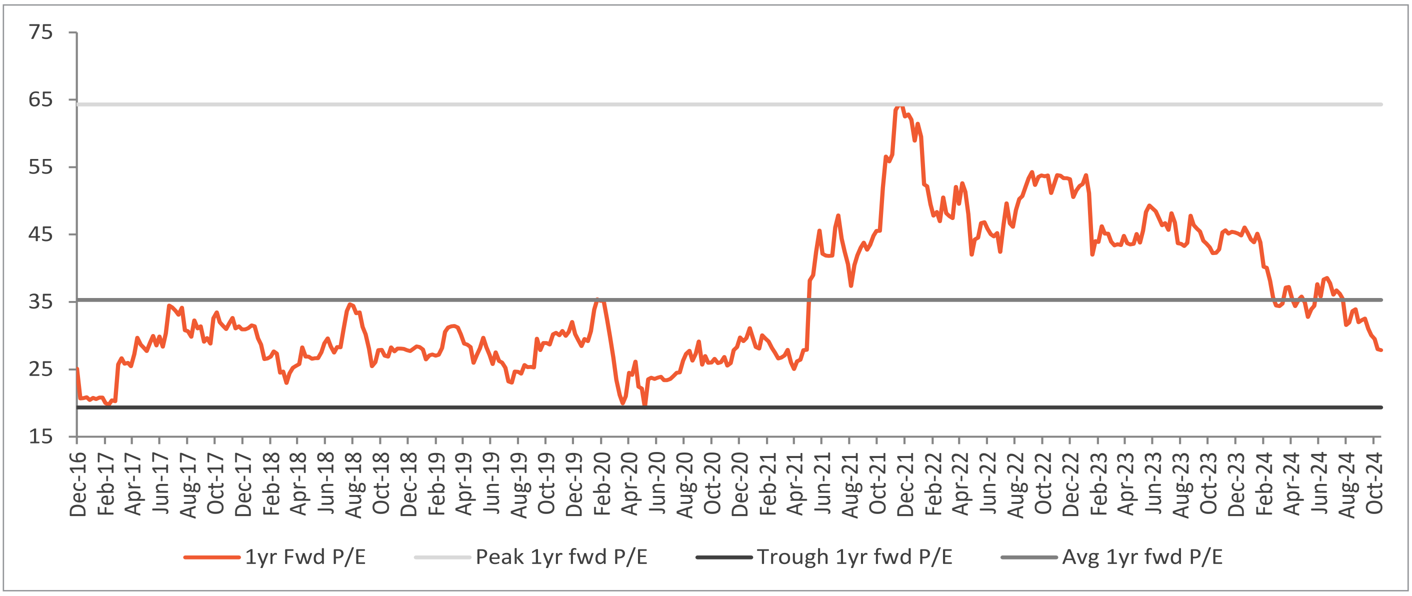
■ Company outlook - Profitable long-term growth outlook

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 13-15% y-o-y volume growth and 1-2% pricing growth during FY2026. On OPMs, it expects to continue aiming for a 50-75 bps y-o-y improvement 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. 1,250

TCI has been affected by sluggish macros, 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. Continuous expansion by setting up new sorting centers and automation of existing centers, addition of branches, and scale up of new businesses would provide a 16% net earnings CAGR over FY2024-FY2027E. 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. 1,250, factoring in the downward revision in estimates and expecting a growth revival from FY2026.

One-year forward P/E (x) band



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. 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

D.P. Agarwal	Chairman and Director
Chander Agarwal	Managing Director
Pabitra Panda	CEO
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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