BUY (Maintained)

CMP: **INR 798** Target Price: **INR 921 (INR 1,200)** ▲ 15%

ICICI Securities

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07 February 2025

India | Equity Research | Results update

TCI Express

Logistics

Industry headwinds mar performance

TCI Express' (TCIE) Q3FY25 EBITDA of INR 289mn was 22.9% below our estimates. Key points: 1) Volume declined 3.2% YoY due to subdued demand. 2) EBITDA margin slipped to 9.8% (lowest since Q2FY21) on account of a volume dip, higher operating costs and unabsorbed fixed cost. 3) Broader capex plans of INR 3.1bn for Q4FY25–FY27 reiterated. 4) Board declared a second interim dividend of INR 6/share. Based on 9MFY25 performance, we slash our FY25E/FY26E EPS by 17.6%/19.3%. We roll forward our valuation to FY27E; however, given the higher risk on earnings due to a continued weak outlook, we lower our target multiple to 28x (vs. 34x). Our revised TP stands at INR 921 (vs. INR 1,200). Retain **BUY**.

EBITDA below estimates

TCIE's Q3FY25 EBITDA undershot our estimate by 22.9%. Key points: 1) EBITDA of INR 289mn (down 36.6% YoY) was dented by a volume dip, higher operating cost and unabsorbed fixed cost. 2) Capacity utilisation declined to 82% (83% in Q2FY25) – an efficient business model should have at least 85% utilisation. 3) EBITDA margin has declined to 9.8% (lowest since Q2FY21). 4) Incurred capex of INR 93.8mn for Q3FY25 (INR 220mn in 9MFY25); plans to incur capex of INR 3.1bn for Q4FY25–FY27. 5) Multi-modal express services (both rail and air) continue to grow; its contribution shall grow from 17–18% currently, to 20–22% over the next three years. 6) CFO was INR 400mn for 9MFY25. 7) Customer mix for Q3FY25 has changed to 53:47 (corporate: SMEs). We factor in 1.9% volume growth for Q4FY25 and 7%/9% for FY26E/FY27E.

De-risking its business portfolio towards multi-modal logistics

The 9MFY25 performance was one TCIE's weakest in recent times with volume declining 2% YoY and EBITDA margins slipping to 10.9% (15.2% in 9MFY24). In order to de-risk its business, the company is focusing more on multi-modal logistic services (including rail and air), and aims to increase their revenue shares to 22–23% over the next three years, from 17–18% now. Further, operating efficiencies from its sorting centres should also aid margins ahead; however, this is contingent on revival of volumes.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	12,538	12,232	13,259	14,597
EBITDA	1,872	1,339	1,609	1,870
EBITDA Margin (%)	14.9	11.0	12.1	12.8
Net Profit	1,317	911	1,094	1,262
EPS (INR)	34.3	23.8	28.5	32.9
EPS % Chg YoY	(5.6)	(30.8)	20.0	15.4
P/E (x)	23.2	33.6	28.0	24.2
EV/EBITDA (x)	15.7	21.9	18.3	15.7
RoCE (%)	20.8	12.3	13.2	14.0
RoE (%)	21.5	13.2	14.2	14.9

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Market Data

Market Cap (INR)	31bn
Market Cap (USD)	350mn
Bloomberg Code	TCIEXP IN
Reuters Code	TCIE BO
52-week Range (INR)	1,363 /721
Free Float (%)	29.0
ADTV-3M (mn) (USD)	0.5

Price Performance (%)	3m	6m	12m
Absolute	(19.1)	(30.0)	(40.6)
Relative to Sensex	(16.2)	(29.4)	(48.8)

ESG Score	2023	2024	Change
ESG score	67.2	NA	NA
Environment	37.8	NA	NA
Social	74.7	NA	NA
Governance	81.1	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(5.3)	(6.7)
EBITDA	(16.3)	(17.8)
EPS	(17.6)	(19.3)

Previous Reports

02-11-2024: Q2FY25 results review

14-08-2024: Q1FY25 results review

Outlook: Attractive valuation; but concerns stay

Q3FY25 was yet another quarter of volume decline – a 3.2% YoY (fifth consecutive quarter of sliding volumes). The performance has been weak on two important parameters: 1) volume growth; and 2) EBITDA margins. However, we believe that this could be the last leg of TCIE's volumes spiralling downwards while its EBITDA margin has likely bottomed out. Though the company has indicated towards a price hike of ~1% in Q4FY25, and some more in FY26, the extent of price hike and its absorption in the market remains to be seen. Based on TCIE's 9MFY25 performance, we reduce our EPS estimates by 17.6%/19.3% for FY25/FY26. We roll forward our valuation to FY27E. However, given the uncertainties around the revival of volumes and the higher risk on earnings, we reduce our target multiple to 28x (earlier 34x). Our revised TP works out to INR 921 (earlier INR 1,200). Maintain **BUY**.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	12,232	12,914	(5.3)	13,259	14,217	(6.7)
EBITDA	1,339	1,600	(16.3)	1,609	1,959	(17.8)
PAT	911	1,106	(17.6)	1,094	1,355	(19.3)

Source: I-Sec research

Key risks

Upside risks: 1) Increased tonnage with improvement in domestic manufacturing; and 2) retention of cost efficiencies obtained in FY21 as volume returns.

Downside risks: 1) Increased rail share, leading to a shift in business model for express players such as TCIE; 2) more omni-channel developments requiring higher technology investments, and 3) a business disruption favouring start-ups in the space.

Q3FY25 conference call takeaways

- While the Oct'24 performance was strong, Nov'24/Dec'24 saw a slowing in performance due to a seasonal reduction in inventory.
- Volume declined by 3% YoY for Q3FY25. Jan'25 was strong, Feb–Mar'25 remains to be seen.
- Margins were impacted by two reasons – 1) volumes dip: SMEtaking a hit; operating on negative leverage; 2) cost pressure: increase in toll taxes, driver shortages, higher drive costs, lower truck utilisation – all impacting margins.
- E-way bill site was closed on the last day of Dec'24, which impacted volumes by ~1–2%.
- The company is gradually pushing for price hikes – expect 1% hike in Q4FY25 and some price hikes in FY26 as well.
- Volume for the quarter was 2,42,000te.
- As the pain in SMEs is high, the company is focusing more on corporate customers. During Q3FY25, corporates contributed ~53% of tonnage.
- Also, the company is de-risking its business towards multi-modal investments. The share of multi-modal logistics is expected to improve from 17–18% currently, to >22% over the next three years.

- Jan'25 performance was strong. Feb–Mar'25 performance remains to be seen.
- The portion of retail sales in overall revenue is ~9%.
- Branch addition is not as aggressive as anticipated. The company is planning to add 50 75 in FY26 and 75–100 in FY27. ~30–40% of these branches shall be for multi-modal and the remaining for surface express.

Exhibit 2: TCIE Q3FY25 performance review

(INR mn)	Q3FY25	Q3FY24	Chg. YoY (%)	Q2FY25	Chg. QoQ (%)	FY24	FY23	Chg. YoY (%)
Net income from operations	3,115	3,200	(2.6)	2,930	6.3	12,538	12,410	1.0
Total income from operations	**3,115**	**3,200**	(2.6)	**2,930**	6.3	**12,538**	**12,410**	1.0
Operating expenses	2,198	2,183	0.7	2,089	5.2	8,586	8,497	1.0
Gross Margin	918	1,017	(9.8)	841	9.1	3,953	3,913	1.0
Gross Margin (%)	*29.5*	*31.8*		*28.7*		*31.5*	*31.5*	
Employee wages	353	335	5.5	346	2.0	1,339	1,243	7.7
Other expenses	197	178	10.7	168	17.7	741	725	2.2
Total expenses	**2,748**	**2,695**	1.9	**2,603**	5.6	**10,666**	**10,465**	1.9
EBITDA	**368**	**505**	(27.1)	**327**	12.3	**1,872**	**1,945**	(3.7)
EBITDA Margin (%)	*11.8*	*15.8*		*11.2*		*14.9*	*15.7*	
Depreciation	53	47	12.5	51	4.5	190	153	23.8
Other Income	25	18	39.5	23	8.3	72	72	(0.3)
Finance Cost	3	4	(5.7)	3	22.2	15	18	(18.8)
PBT	336	472	(28.8)	297	13.3	1,740	1,845	(5.7)
Tax	87	116	(25.2)	74		423	453	(6.6)
PAT	**249**	**356**	(29.9)	**223**	11.7	**1,317**	**1,393**	(5.4)

Source: I-Sec research, Company data

Exhibit 3: TCIE operational review

	Q3FY25	Q3FY24	Chg. YoY (%)	Q2FY25	Chg. QoQ (%)
Volumes (mnte)	0.250	0.252	(0.8)	0.235	6.4
Realisation/te growth (%)	(1.9)	1.2		(1.9)	
Tonnage growth (%)	(0.8)	2.0		(2.1)	
Realisation/te (INR)	12,462	12,698	(1.9)	12,467	(0.0)
Gross Margin/te (INR)	3,671	4,036	(9.1)	3,579	2.6
EBITDA/te (INR)	1,470	2,002	(26.6)	1,393	5.6

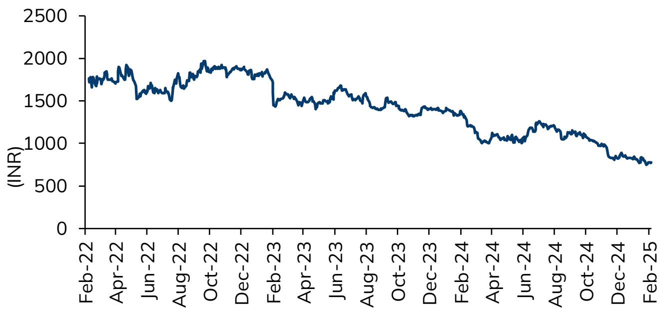
Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	69.6	69.5	69.5
Institutional investors	11.8	11.9	10.6
MFs and others	10.1	9.9	9.6
FIs/Banks	-	-	-
Insurance	0.1	0.2	0.1
FIIs	1.6	1.8	0.9
Others	18.6	18.5	19.8

Source: Bloomberg

Exhibit 5: Price chart



Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**12,538**	**12,232**	**13,259**	**14,597**
Operating Expenses	2,080	2,181	2,396	2,642
EBITDA	**1,872**	**1,339**	**1,609**	**1,870**
EBITDA Margin (%)	14.9	11.0	12.1	12.8
Depreciation & Amortization	190	207	243	279
EBIT	1,683	1,133	1,367	1,591
Interest expenditure	15	15	15	15
Other Non-operating Income	72	100	110	111
Recurring PBT	**1,740**	**1,218**	**1,462**	**1,687**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	423	307	368	425
PAT	1,317	911	1,094	1,262
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**1,317**	**911**	**1,094**	**1,262**
Net Income (Adjusted)	**1,317**	**911**	**1,094**	**1,262**

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	2,921	2,940	3,024	3,331
of which cash & cash eqv.	204	397	301	374
Total Current Liabilities & Provisions	1,300	1,259	1,313	1,397
Net Current Assets	**1,621**	**1,682**	**1,710**	**1,934**
Investments	900	900	900	900
Net Fixed Assets	4,185	4,729	5,488	6,220
ROU Assets	-	-	-	-
Capital Work-in-Progress	161	161	161	161
Total Intangible Assets	46	46	46	46
Other assets	292	292	292	292
Deferred Tax Assets	-	-	-	-
Total Assets	**7,205**	**7,809**	**8,596**	**9,552**
Liabilities				
Borrowings	**30**	**30**	**30**	**30**
Deferred Tax Liability	**135**	**135**	**135**	**135**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	77	77	77	77
Reserves & Surplus	6,963	7,568	8,355	9,311
Total Net Worth	**7,040**	**7,645**	**8,432**	**9,387**
Minority Interest	-	-	-	-
Total Liabilities	**7,205**	**7,809**	**8,596**	**9,552**

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	3,171	2,930	3,115	3,115
% growth (YOY)	(2.8)	(3.9)	(2.6)	(2.6)
EBITDA	448	327	368	368
Margin %	14.1	11.2	11.8	11.8
Other Income	19	23	25	25
Extraordinaries	-	-	-	-
Adjusted Net Profit	316	223	249	249

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**1,360**	**1,254**	**1,214**	**1,393**
Working Capital Changes	(174)	133	(125)	(151)
Capital Commitments	(461)	(751)	(1,001)	(1,011)
Free Cashflow	**900**	**503**	**213**	**382**
Other investing cashflow	**(590)**	**-**	**-**	**-**
Cashflow from Investing Activities	(1,051)	(751)	(1,001)	(1,011)
Issue of Share Capital	22	-	-	-
Interest Cost	(15)	(3)	(3)	(3)
Inc (Dec) in Borrowings	22	-	-	-
Dividend paid	(307)	(306)	(306)	(306)
Others	-	-	-	-
Cash flow from Financing Activities	(278)	(309)	(309)	(309)
Chg. in Cash & Bank balance	**32**	**193**	**(97)**	**73**
Closing cash & balance	170	397	301	374

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	34.3	23.8	28.5	32.9
Adjusted EPS (Diluted)	34.3	23.8	28.5	32.9
Cash EPS	39.3	29.1	34.8	40.2
Dividend per share (DPS)	8.0	8.0	8.0	8.0
Book Value per share (BV)	183.6	199.3	219.9	244.8
Dividend Payout (%)	23.3	33.6	28.0	24.3
Growth (%)				
Net Sales	1.0	(2.4)	8.4	10.1
EBITDA	(3.7)	(28.5)	20.2	16.2
EPS (INR)	(5.6)	(30.8)	20.0	15.4
Valuation Ratios (x)				
P/E	23.2	33.6	28.0	24.2
P/CEPS	20.3	27.4	22.9	19.8
P/BV	4.3	4.0	3.6	3.3
EV / EBITDA	15.7	21.9	18.3	15.7
Dividend Yield (%)	1.0	1.0	1.0	1.0
Operating Ratios				
Gross Profit Margins (%)	31.5	28.8	30.2	30.9
EBITDA Margins (%)	14.9	11.0	12.1	12.8
Effective Tax Rate (%)	24.3	25.2	25.2	25.2
Net Profit Margins (%)	10.5	7.4	8.2	8.6
Net Debt / Equity (x)	(0.2)	(0.2)	(0.1)	(0.1)
Net Debt / EBITDA (x)	(0.6)	(0.9)	(0.7)	(0.7)
Total Asset Turnover (x)	2.0	1.7	1.7	1.7
Inventory Turnover Days	-	-	-	-
Receivables Days	71	63	67	70
Payables Days	28	26	27	28
Profitability Ratios				
RoE (%)	21.5	13.2	14.2	14.9
RoCE (%)	20.8	12.3	13.2	14.0
RoIC (%)	24.2	14.3	15.6	16.4

Source Company data, I-Sec research

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