

Emerging leader in express logistics...

TCI Express (TCIEL) reported revenues in line with I-direct estimates while EBITDA and PAT were higher than I-direct estimates. Revenue grew 2% YoY driven by 1% volume growth amid continued slowdown in economic activity. EBITDA margins increased 101 bps to 12.8% mainly due to lower operating expense to sales ratio (70.6% vs. 73.8% in Q3FY19). Subsequently, absolute EBITDA grew 11% YoY to ₹ 34 crore. PAT grew 36% YoY to ₹ 26 crore, mainly due to an improved operational performance and lower tax rate (22% vs. estimated 35%).

EBITDA margin improvement likely to sustain

Revenue growth in 9MFY20 was slower than usual at ~5% (FY17-19 CAGR of 17%) owing to slower economic growth leading to lower volumes. However, the company expects volume growth to pick up in the next few quarters driven by better traction from large customers and continued addition of new customers from the SME segment. The key positive has been improvement in margins in spite of a tough market scenario. For 9MFY20, the EBITDA margin has improved 70 bps YoY to 11.9%. We expect the company to report a revival in revenue growth from FY21 driven by new branch additions and expansion of clients in the SME segment. On the EBITDA margin front, we expect 100 bps improvement from 12.2% in FY20E to 13.2% in FY21E.

Capex to pick up in FY21 driven by investing in sorting centres

The company has spent ~₹ 23 crore on capex in 9MFY20, which is lower than the expected run rate owing to a delay in getting regulatory approvals for expansion of the planned sorting centres. TCIEL expects the two new sorting centres at Gurgaon and Pune to be operational by Q2FY21. Overall, the company has maintained the capex guidance of ₹ 400 crore in five years (of which ₹ 100 crore already spent in last two years). It would be utilised to expand its reach in Tier II, III cities (hub & spoke model - reach 1000 offices count), open new sorting centres, develop in-house analytics, etc. During Q3FY20, the company added 10 new branches (total branch network of 737 branches) to penetrate deeper into new geographies.

Valuation & Outlook

The express segment has been delivering robust earnings growth, primarily due to the benefits of reduced delivery time, growing preference for just-in-time approach (reducing inventory costs) and minimisation of loss of sale opportunities. Low leverage, a robust growth trajectory and high core return ratios (FY22E RoCE at 34% and a ~3% FCF yield), position TCIEL as one of the preferred picks in the logistics space. We value TCIEL at 28x P/E with a target price of ₹ 1020 and a **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market Capitalization (₹ Cr)	3,221.9
Total Debt (FY19) (₹ Cr)	8.7
Cash and Investments (FY19)	17.1
EV (₹ Cr)	3,213.4
52 week H/L	867/531
Equity capital (₹ Cr)	3.8
Face value (₹)	2.0

Key Highlights

- Planned space addition of 3.5 lakh sq ft by Q2FY21 with the start of two new sorting centres in Gurgaon, Pune
- Spent ~₹ 23 crore on capex in 9MFY20. Capex intensity expected to pick up in FY21 with investment in new sorting centres
- Expect revenue, EBITDA, PAT CAGR of 12%, 16%, 24%, respectively, in FY19-22E
- Maintain BUY

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Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR
Revenues (₹ crore)	885.1	1,023.8	1,075.0	1,236.2	1,421.7	12.6
EBITDA (₹ crore)	90.7	119.0	131.1	154.5	188.1	20.0
Adjusted Net Profit (₹ crore)	58.4	72.9	96.0	113.9	140.0	24.4
EPS (₹)	15.2	19.0	25.1	29.8	36.6	24.4
P/E (x)	55.1	44.1	33.5	28.2	23.0	
Price / Book (x)	15.6	12.0	9.2	7.2	5.6	
EV/EBITDA (x)	35.8	26.9	24.3	20.6	16.7	
RoCE (%)	38.3	42.3	38.6	35.6	34.2	
RoNW (%)	31.8	30.7	31.2	28.7	27.5	

Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Revenue	268.4	273.7	263.2	2.0	269.5	-0.4	YoY growth mainly due to increase in SME customers during the quarter despite headwinds in general economy. Volume and realisation growth were at 1% each
Operating expenses	189.6	197.0	194.1	-2.3	192.8	-1.7	
Employee Expenses	25.1	26.8	21.1	19.2	26.3	-4.5	
Other Expense	19.4	19.2	17.0	14.0	19.6	-1.3	
Total Expense	234.1	243.0	232.2	0.8	238.8	-2.0	
EBITDA	34.3	30.7	31.0	10.8	30.7	11.7	
EBITDA Margin (%)	12.8	11.2	11.8	101 bps	11.4	138 bps	Higher margins on account of better operating efficiency during the quarter
Depreciation	2.1	1.8	1.7	26.0	1.8	15.8	
Interest	0.2	0.3	1.0	-85.4	0.3	-40.0	
Other Income	0.9	1.2	0.7	30.3	1.6	-46.6	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	32.9	29.8	28.9	13.7	30.2	8.8	
Total Tax	7.4	7.5	10.2	-27.9	4.1	78.0	Tax rate at 22%
PAT	25.5	22.3	18.7	36.4	26.1	-2.2	Improvement in EBITDA margin and lower tax rate resulting in PAT growth

Source: ICICI Direct Research

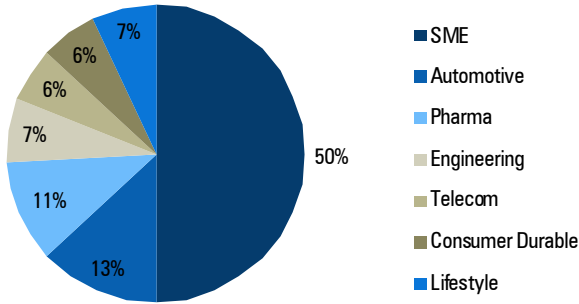
Exhibit 2: Change in estimates

(₹ Crore)	FY20E				FY21E				FY22E			Comments
	FY19	Old	New	% Change	Old	New	% Change	Old	New	% Change		
Gross Revenue	1,023.8	1,105.7	1,075.0	-2.8	1,271.5	1,236.2	-2.8	1,462.3	1,421.7	-2.8	Revenue estimates revised downwards due to weak 9MFY20 topline	
EBITDA	119.0	132.7	131.1	-1.2	158.9	154.5	-2.8	190.1	188.1	-1.1		
EBITDA Margin (%)	11.6	12.0	12.2	20 bps	12.5	12.5	0 bps	13.0	13.2	23 bps	Margin performance likely to remain strong	
PAT	72.9	94.6	96.0	1.4	114.7	113.9	-0.7	139.3	140.0	0.5		
EPS (₹)	19.0	24.7	25.1	1.5	30.0	29.8	-0.8	36.4	36.6	0.5		

Source: Company, ICICI Direct Research

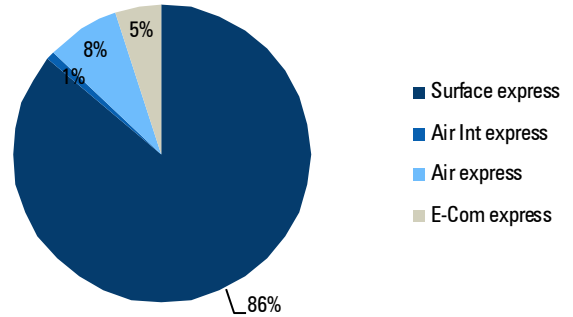
Key Metrics

Exhibit 3: Industry verticals



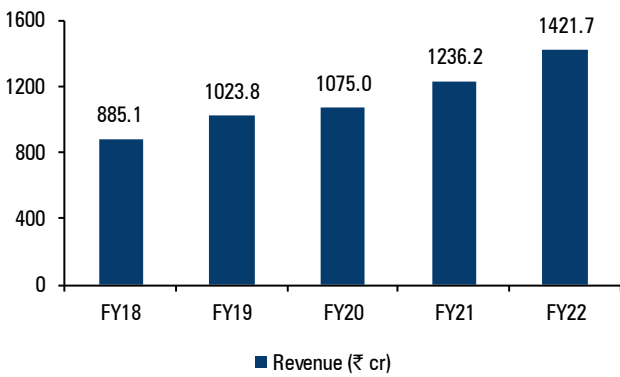
Source: ICICI Direct Research, Company

Exhibit 4: Products segment



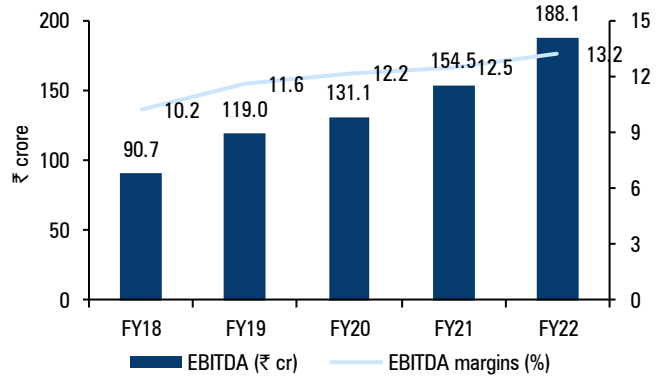
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 12% CAGR in FY19-22



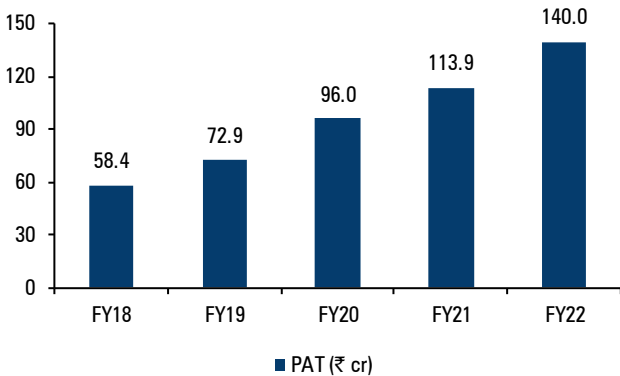
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA likely to grow at 16% CAGR in FY19-22



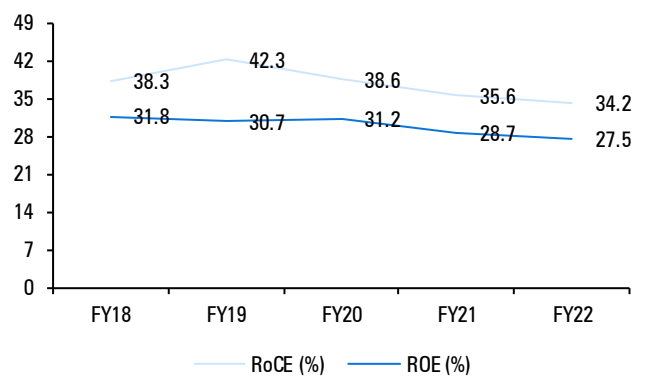
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 24% CAGR in FY19-22



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



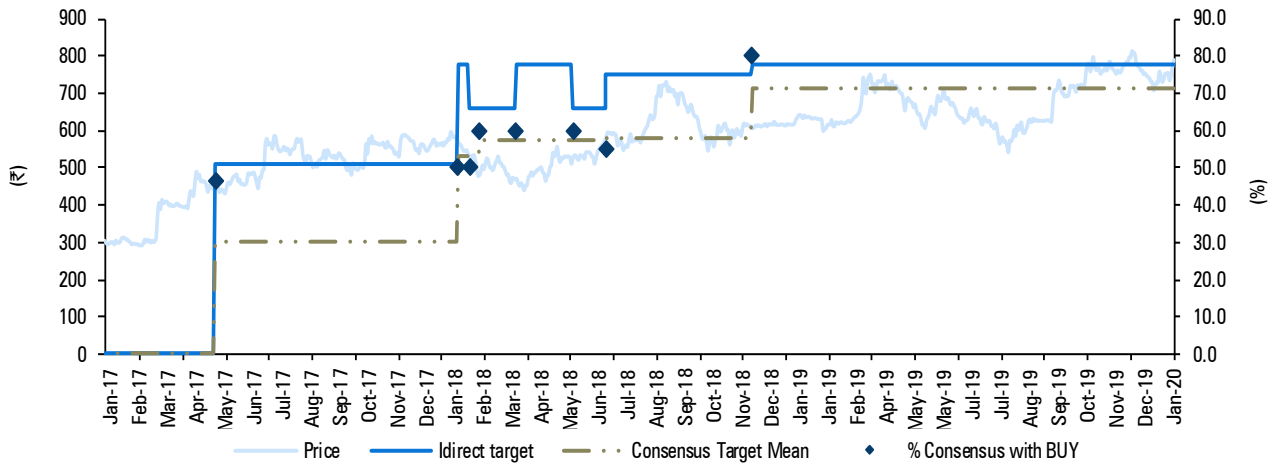
Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

Year	Sales (₹ Crore)	Sales Gr.	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITD	RoNW (%)	RoCE (%)
FY18	885.1	18.0	15.2	55.7	55.1	35.8	31.8	38.3
FY19	1023.8	15.7	19.0	24.8	44.1	26.9	30.7	42.3
FY20E	1075.0	5.0	25.1	31.7	33.5	24.3	31.2	38.6
FY21E	1236.2	15.0	29.8	18.7	28.2	7.2	38.6	35.6
FY22E	1421.7	15.0	36.6	22.9	23.0	5.6	34.2	34.2

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation history vs. Consensus



Source: ICICI Direct Research; Reuters

Exhibit 11: Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Bhoruka Express	3-Jul-19	44.4	17.04m	17.04m
2	Bhoruka Finance Corp	3-Jul-19	20.7	7.95m	0.00m
3	Bhoruka Internationa	3-Jul-19	13.8	5.29m	0.00m
4	Agarwal Dharam Pal	3-Jul-19	10.2	3.93m	0.00m
5	Tci Trading	30-Jun-19	6.5	2.49m	2.49m
6	Tci India Ltd	3-Jul-19	5.3	2.02m	0.00m
7	Tci Global Logistics	3-Jul-19	3.0	1.15m	0.00m
8	Arcee Holdings Ltd	30-Jun-19	2.7	1.02m	0.00m
9	Agarwal Vineet	3-Jul-19	2.6	1.00m	0.00m
10	Agarwal Vineet	30-Jun-19	2.6	0.99m	0.98m

Source: ICICI Direct Research, Reuters, Company

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	66.0	67.0	66.9	66.9
Others	34.0	33.0	33.1	33.1

Source: ICICI Direct Research, Reuters, Company

Financial Summary

Exhibit 13: Profit & Loss Statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating Income	1,023.8	1,075.0	1,236.2	1,421.7
Growth (%)	15.7	5.0	15.0	15.0
Operating expenses	753.4	768.6	877.7	1,002.3
Employee Cost	85.9	102.1	117.4	132.2
Other expenses	65.6	73.1	86.5	99.1
Other expenses	65.6	73.1	86.5	99.1
EBITDA	119.0	131.1	154.5	188.1
Growth (%)	31.3	10.2	17.8	21.7
Depreciation	6.5	7.1	9.4	11.7
EBIT	112.5	124.1	145.1	176.4
Interest	3.8	0.6	0.1	0.1
Other Income	3.2	4.8	7.2	10.8
PBT	111.9	128.2	152.2	187.0
Growth (%)	33.6	14.6	18.7	22.9
Tax	39.0	32.3	38.3	47.1
Reported PAT	72.9	96.0	113.9	140.0
Exceptional Items	-	-	-	-
Adjusted PAT	72.9	96.0	113.9	140.0
Growth (%)	24.7	31.7	18.7	22.9
EPS	19.0	25.1	29.8	36.6

Source: ICICI Direct Research

Exhibit 14: Cash flow Statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	72.9	96.0	113.9	140.0
Less: Dividend Paid	(3.8)	(0.6)	(0.1)	(0.1)
Add: Depreciation	6.5	7.1	9.4	11.7
Add: Others	-	-	-	-
Cash Profit	83.2	103.7	123.4	151.8
Increase/(Decrease) in CL	4.6	(16.2)	11.3	13.0
(Increase)/Decrease in CA	(10.2)	(0.1)	(25.8)	(29.6)
CF from Operating Activities	72.5	86.6	108.3	134.4
(Add) / Dec in Fixed Assets	(19.2)	(51.0)	(81.6)	(82.8)
Changes in goodwill	0.3	-	-	-
(Inc)/Dec in Investments	(1.3)	(0.1)	(0.1)	(0.1)
CF from Investing Activities	(20.2)	(51.0)	(81.7)	(82.8)
Inc/(Dec) in Loan Funds	(31.1)	-	(7.6)	-
Inc/(Dec) in Sh. Cap. & Res.	(12.5)	(15.3)	(15.3)	(15.3)
Others	(3.8)	(0.5)	0.1	0.1
CF from financing activities	(47.4)	(15.8)	(22.8)	(15.2)
Change in cash Eq.	4.9	19.8	3.8	36.3
Op. Cash and cash Eq.	12.2	17.1	36.9	40.6
Cl. Cash and cash Eq.	17.1	36.9	40.7	76.9

Source: ICICI Direct Research

Exhibit 15: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Source of Funds				
Equity Capital	7.7	7.7	7.7	7.7
Reserves & Surplus	259.5	340.2	438.8	563.4
Shareholder's Fund	267.2	347.8	446.4	571.1
Secured Loan	0.5	0.5	0.5	0.5
Unsecured Loan	46.4	11.4	0.6	0.6
Total Loan Funds	8.7	8.7	1.1	1.1
Deferred Tax Liability	-	-	-	-
Minority Interest	5.5	5.6	5.7	5.8
Source of Funds	281.4	362.1	453.2	578.0
Application of Funds				
Gross Block	194.6	244.6	324.6	404.6
Less: Acc. Depreciation	23.0	30.1	39.5	51.2
Net Block	171.6	214.5	285.1	353.3
Capital WIP	1.4	2.3	4.0	6.7
Total Fixed Assets	172.9	216.8	289.0	360.1
Intangibles	1.5	1.5	1.5	1.5
Investments	1.3	1.3	1.4	1.5
Debtors	163.1	162.0	186.3	214.2
Cash	17.1	36.9	40.6	76.9
Loan & Advance, Other C/	21.8	23.7	25.9	28.3
Total Current assets	202.0	222.6	252.8	319.4
Creditors	72.3	52.6	60.1	68.6
Other Current Liabilities	21.2	24.3	28.0	32.2
Provisions	4.1	4.3	4.5	4.8
Deferred Tax Assets	1.2	1.2	1.2	1.2
Total CL and Provisions	97.5	81.3	92.6	105.6
Net Working Capital	104.5	141.3	160.2	213.8
Miscellaneous expense	-	-	-	-
Application of Funds	281.4	362.1	453.2	578.0

Source: ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Book Value	69.8	90.9	116.6	149.2
EPS	19.0	25.1	29.8	36.6
Cash EPS	20.7	26.9	32.2	39.6
DPS	3.0	4.0	4.0	4.0
Profitability & Operating Ratios				
EBITDA Margin (%)	11.6	12.2	12.5	13.2
PAT Margin (%)	7.1	8.9	9.2	9.8
Fixed Asset Turnover (x)	3.7	3.0	2.8	2.5
Debtor (Days)	55.0	55.0	55.0	55.0
Current Liabilities (Days)	33.2	25.0	25.0	25.0
Return Ratios (%)				
RoE	30.7	31.2	28.7	27.5
RoCE	42.3	38.6	35.6	34.2
RoIC	26.4	26.9	25.5	24.5
Valuation Ratios (x)				
P/E	44.1	33.5	28.2	23.0
Price to Book Value	12.0	9.2	7.2	5.6
EV/EBITDA	26.9	24.3	20.6	16.7
EV/Sales	3.1	3.0	2.6	2.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	29.8	204.2	1,884.6	2,290.3
Debt to EBITDA (x)	0.1	0.1	0.0	0.0
Current Ratio	1.9	2.3	2.3	2.3
Quick ratio	1.9	2.3	2.3	2.3

Source: ICICI Direct Research

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Sell: <-15%



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