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Initiating Coverage

TCI Express Ltd.

07-May-2021

RETAIL RESEARCH

TCI Express Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Logistics	Rs. 897	Buy at LTP & add more on dips to Rs 810	Rs. 972	Rs. 1053	2 quarters

HDFC Scrip Code	TCIEXPEQNR
BSE Code	540212
NSE Code	TCIEXP
Bloomberg	TCIEXP:IN
CMP May 06, 2021	897
Equity Capital (cr)	7.7
Face Value (Rs)	2
Eq- Share O/S(cr)	3.84
Market Cap(Rscr)	3440
Book Value (Rs)	88
Avg.52 Wk Volume	72483
52 Week High	1024.45
52 Week Low	523.00

Share holding Pattern % (March, 2021)	
Promoters	66.79
Institutions	22.91
Non Institutions	10.30
Total	100.0

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Our take

TCI Express enjoys the leadership position in surface logistics in India, which contributes to 86% of its revenue. Its extensive pan-India presence covers 708 districts, and services 40,000+ pick-up points through 5000+ leased trucks. Post the demerger from TCI, the company has sharpened its focus on the asset-light express logistics business.

The company has an aggressive capex outlay of Rs 400Cr for five years (of which ~Rs 119Cr has already been invested in the past three years). It aims to expand its total branches from ~800 (in FY20) to ~2,000 over the next 2-3 years. The company plans to increase its owned sorting centres vis-à-vis leased ones, a move which would further bolster its margins due to lower rental expenses. This capex will increase sorting space from 2mn sqft to 3mnsqft.

We expect revenue to be hit in the near term by Covid-led economic slowdown. The industry is highly dependent on the manufacturing sector and government support, which are expected to slow down with the economy slowing down.

Valuations and recommendation

We expect that, going forth, the company would gain from its leadership position, expansion, diversification of customers, and revenue stream. Also, its superior return ratios, asset-light business model, and robust financials provide comfort.

Furthermore, it is pertinent to note that the company operates in a highly underpenetrated segment which has a high share of unorganized players (~95%); we believe this presents a structural growth opportunity that can be harnessed with limited investment, given the asset-light nature of the business. The opportunity size (large unorganized market), leadership in a stable industry, and high return ratios justify the premium valuation of TCI Express.

With increasing share of rails even in EXIM container trade and relatively better positioning of stronger balance sheet organised sector road transporters like TCI Express could benefit sustainably. This benefit could increase with the advent of DFC (Dedicated Freight Corridor).

TCI Express Ltd.

Covid-led slowdown has adversely impacted FY21 and would partly impact FY22E as utilization has gone down and there is a sharp fall in manufacturing activities of various sectors, which could lead to the company reporting 5% topline CAGR and 12% EPS CAGR over FY20-23E. Moreover, recent tax reforms would also boost the profitability for TCI Express, as it was paying ~35% taxes in the previous years (which would now come down to 25-26%). The management has maintained its long-term guidance of doubling revenues and tripling net profit over four years.

The stock is currently trading at 27.7x FY23E P/E, 20x FY23E EV/EBITDA. **We believe the base case fair value of the stock is Rs.972 (30x FY23E P/E) and the bull case the fair value of the stock is Rs.1053 (32.5x FY23E P/E). Investors willing to take some risk can buy at LTP and add more on dips to Rs.810 (25x FY23E P/E).**

Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	263	268	-2%	213	23%	1,024	1,032	833	1,070	1,208
EBITDA	45	34	32%	33	36%	119	121	120	149	167
APAT	34	26	32%	23	43%	73	89	87	110	124
Diluted EPS (Rs)	8.75	6.66	31%	6.11	43%	19	23	23	29	32
RoE-%						31	29	23	24	23
P/E (x)						47.2	38.6	39.4	31.1	27.7
EV/EBITDA						20.7	20.3	20.6	16.6	14.8

(Source: Company, HDFC sec)

Q3FY21 result update

- Volume of the company was 2.15 lk tonne in Q3FY21 vs 2.25 lk tonne in Q3FY20, a degrowth of 4.44% YoY. Volume of the company was ~4.6 lk tonne in 9MFY21 vs 6.75 lk tonne in 9MFY20, ~31% down YoY. Price was hiked by 2% YoY. Truck fill factor was ~86% in 9MFY21.

- Revenue of the company fell by 2% YoY to Rs.263 cr. Due to tight cost controls, fall in employee costs (-7.5%), and lower other expenses (-7.2%), EBITDA came in at Rs.45 cr vis-à-vis Rs.34 cr in the same quarter in the previous year (32% growth YoY).

- Capacity utilization has improved MoM. The company has not faced any intense shortage of labor. The quarter started with a strong recovery in October with normalization in the economic activity, improved business sentiment, while demand also picked up during the festive season and MSMEs expanded their operations.

Long-term triggers

Diverse Product mix to fuel growth

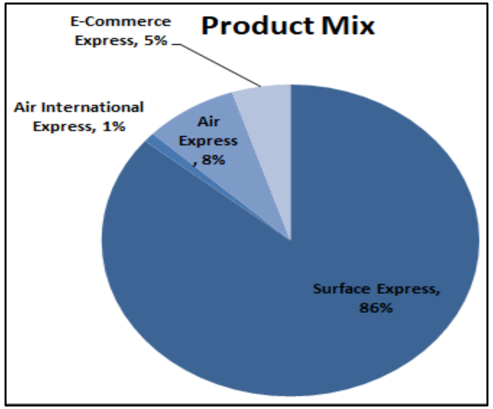
- **Surface logistics**
  The company offers solutions for customer’s logistics needs by providing doorstep pick-up and delivery. Its offerings include logistics pick-up and delivery in India at 40,000+ locations, cash on delivery, day-definite delivery, and Sunday and holiday deliveries.

- **Domestic air logistics**
  The company offers 24x7 customer service as well as time-sensitive logistics deliveries. It delivers to all metro cities within 24 hours, and at mini-metros and A-class cities in 48 hours.

- **International air logistics**
  It offers time-sensitive movement of small packages (samples) and commercial shipments from all major ports of India. The company's service extends to ~208 countries across the globe. It provides services such as free 7-day storage facility at origin locations in its sorting centers for export consignments, pick-up from exporter's premises arranged for port-to-port shipments, etc.

- **Reverse logistics**
  It offers reverse logistics services efficiently and economically by transferring goods from the customer’s location back to that of the manufacturer. Other services include pick-up from anywhere in India from 3,000+ points, centralized monitoring, etc.

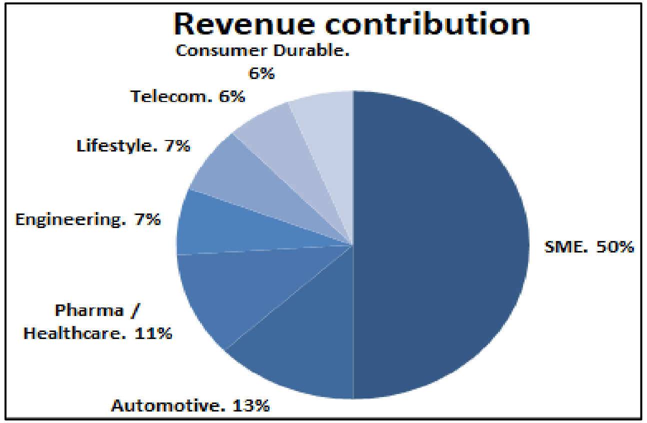
- **E-commerce**
  It offers the in-city distribution of goods through GPS-enabled fleet of route vehicles, which facilitates optimum on-time delivery.



Source – Company, HDFC sec Research

Revenue spread across different clientele

The company has ~2,00,000+ customers and not a single client contributes to more than 1% of revenue.



Source – Company, HDFC sec Research

Industry	Express service availed
Auto-components	Safe and secure transport of spare parts to remote locations or on an urgent basis
Textile and lifestyle	Shipment of the finished product from the warehouse to the distributor or the location
Electronics/Digital/IT	
Hardware	Shipment of spare parts for after sales servicing, PCs, printers, laptops and mobiles
Medical Equipment	Timely shipment and distribution of critical medical equipment at hospitals and nursing centers
Pharmaceuticals	Safe and secure transportation of critical clinical trial products and time and temperature sensitive medications

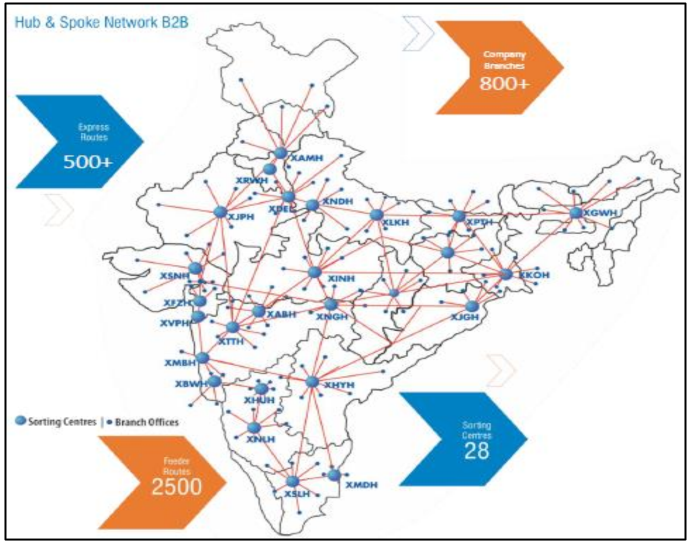
Asset-light model

The company has leased out ~5,000 trucks through ~1,500 vendors. For owning these trucks, it would need to outlay capex of Rs. 300-400cr. Rather than spending on the vehicles, it spends on building sorting centers. Sorting centers cost ~Rs 30-40cr (much lesser than the trucks would cost), which improves its return ratios. This strategy also reduces the risk, as : (1) not more than 3-4 vehicles is sourced from the same vendor; (2) payment is made on km-run basis to vendors, without any linkage to utilization levels/tonnage carried; (3) vehicles are replaced every 6-7 years with strict due diligence of vendors' financial standing; and (4) it has the comfort of security deposit before entering into any contract. Due to this asset-light model, TCI Express has saved fixed costs to some extent, which is a huge relief during tough times. It also helps in improving return ratios.

Improving operating efficiency

The company's operating performance has improved significantly in FY19 and FY20. EBITDA margin has grown to 12.20% in FY20 from 11.90% in FY19 and 10.50% in FY18, while PAT margin expanded to 8.60% in FY20 from 7.10% in FY19 and 6.60% in FY18; we expect it to remain stable over the next few years. The company plans to increase its owned sorting centers rather than go in for leased ones; the same would lead to lower rental expenses and thereby expand margins. 80% of its old sorting centers are fully automated and 40% of its new sorting centres are automated, which will enhance efficiency. By increasing the number of sorting centers, it will be able to make vehicles free sooner and reload them speedily to use them more effectively.

In 9MFY21, the company had incurred capex of Rs.41 cr. It is utilized for two new sorting centers at Gurgaon and Pune. The construction of the Pune one is complete. Also, the company has opened 20 new branches.



Source – Broker reports, Company, HDFC sec Research

Leadership position in surface logistics

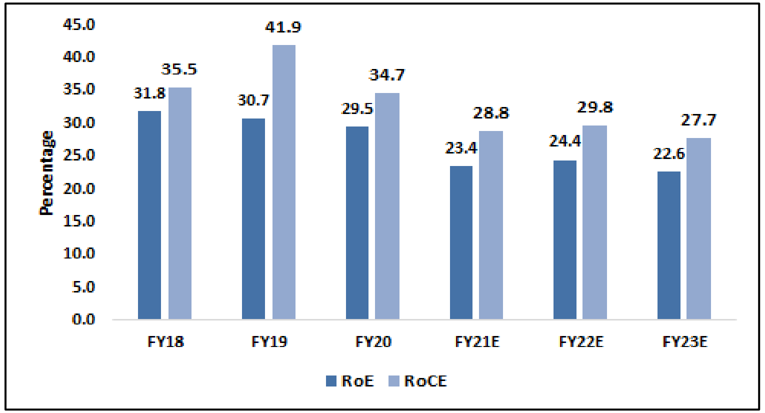
Surface logistics contribute towards 86% of the company's revenue. TCI Express caters to many Indian districts (to ~18000+ pin codes) while Blue Dart caters to ~17,700 and Gati KWE caters to ~14,500 of pin codes.

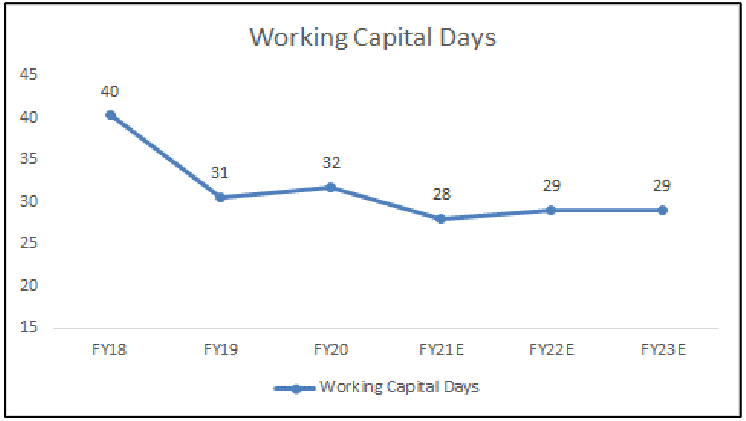
This leadership position helps it gain market share while also allowing it to hike prices without any ill effects. Also, management expects a 3-5% price hike in FY22.

The Indian express logistics industry is pegged to grow at a CAGR of 17% till 2023 and employ nearly 26 lakh people. TCI Express is well poised to benefit from this expected growth. With India emerging as the new hot spot for various manufacturing activities, the role of the express logistics industry would become more crucial in the years to come.

Robust financials

TCI Express has strong return ratios with healthy operating cash flow generation. Its balance sheet is debt-free, which helps the company to survive during tough times. A strong balance sheet helps with robust depreciation and interest coverage. The company has strong return ratios with stable working capital cycle.





Source – Company, HDFC sec Research

What could go wrong?

Highly unorganized sector

~90% of the industry is dominated by unorganized players, which leads to competitive pressures. The warehouse industry in India is still highly unorganized and fragmented. This is because most of the warehouses in India are less than 10,000 sq. ft., which results in high inventory holding costs, higher storage cost, and damage of product and material due to improper handling.

Covid-led slowdown hampers revenue

Political disturbances and CAA protests created problems for the company in pre-COVID times and post-COVID, lockdowns and economic slowdown have impacted its revenue adversely. The second wave of COVID-19 has again disturbed the movements of goods, which has an adverse impact on revenue. The economic slowdown has affected the company's growth and its capacity utilization, which is a key factor to improve profitability and hike prices since lower capacity utilization reduces both profitability and price realization.

The company may find it difficult to maintain its current return ratios after the planned capex if it is unable to scale up revenue and profitability.

Even within the organized space, the company faces competition from existing players and PE backed new players.

About the company

The company provides services for Surface Logistics and Air Logistics in B2B and Last Mile Logistics in the B2C division. It is a leader in door-to-door logistics, covering around 99% of districts in India with a global presence in 202 countries.

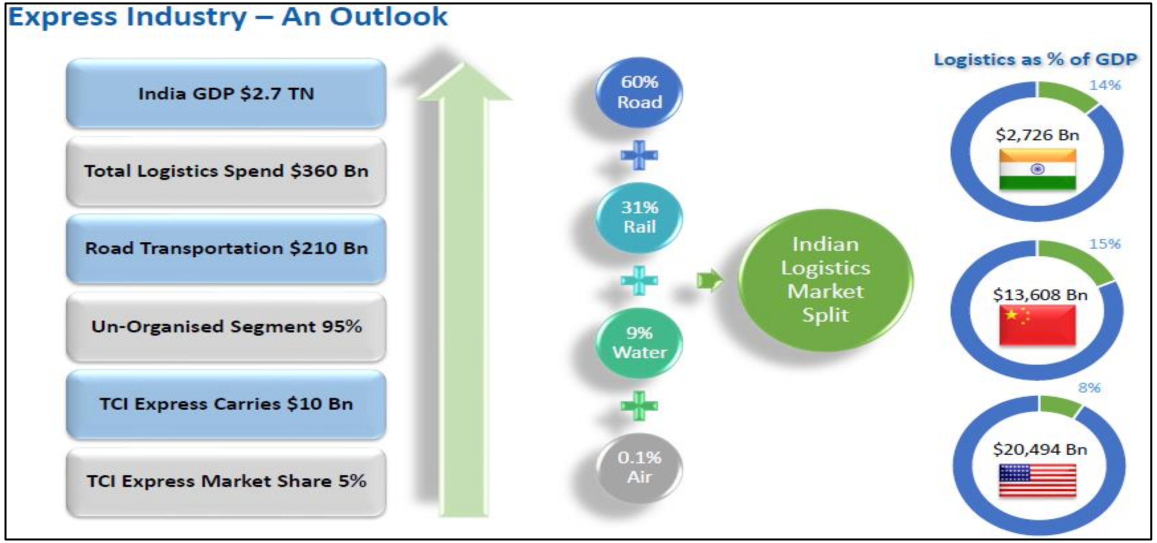
The company provides value-added services such as collection on delivery for B2C, Sunday/holiday delivery services, customized solutions as per the customer specification, etc. The company is a market leader in surface logistics, and follows the hub and spoke model with 800+ branches, 28 sorting centers, 5000 containerized vehicles, ~2,00,000 customers, etc.

Industry

The Indian logistics industry is highly fragmented, characterized by the presence of numerous unorganized or regional players, who account for ~90% of it. This industry's size is ~Rs.25,000 cr (as of FY19), which is expected to grow at ~10% every year until 2025.

Source – Deloitte, HDFC sec Research

Surface logistics continues to grow vis-a-vis air logistics due to the divergence in the cost of booking logistics shipment through the two routes. Air logistics is 4-5 times more expensive than surface logistics. The cost of the bulkier shipment is higher in air transport than in surface transport, which also increases the attractiveness of the latter. State and central governments have made robust investments in schemes such as Bharatmala to upgrade road networks. This improves the growth of surface logistics. Also, major value-added services such as door-to-door delivery of shipments in a time-sensitive manner with real-time shipment tracking facilities fuel the growth of the Indian logistics industry.



Source – Company, HDFC sec Research

Large players have pan-India networks of sorting centers and branches, better infrastructure with better technology, which serve as a key advantage over regional players. Also, it is expected that large national players would gain market share from the regional players over time.

The elimination of inter-state check-posts under the GST norms has improved the average truck speed, productivity, demand for grade-A warehouses, and demand for value-added services. This should further lower the turnaround time for surface logistics players. All consignments worth over Rs 50,000 require e-way bills, which have increased the compliance burden for the unorganized players. The government has already granted infrastructure status to the logistics industry and created a separate division for it within the Ministry of Commerce. This move is expected to ease access to financing for logistics companies.

The recent Union Budget witnessed the allocation of Rs.1.7 lakh cr towards transport infrastructure, promising to monetize 12 highways, spread over 6,000 kilometers, by 2024. This is likely to further benefit freight movement and transportation costs.
Multi-Modal Logistics Parks (MMLP) Policy is a major key policy initiative on the part of the government of India to improve the country's logistics sector. This initiative is expected to lower freight costs, reduce vehicular pollution and congestion, and cut warehouse costs to promote domestic and global trade.

The government has undertaken various measures to develop logistics infrastructure and make the sector more efficient. Some of the key measures are:

- The logistics sector has been granted infrastructure status in 2017. This allows the sector access to funds at easier terms with enhanced limits.

- The government is pushing its 'Make in India' and 'Atamanirbhar Bharat' programs, which are driving the demand for logistics services.

- A National Logistics Policy has been drafted to focus on the development of a fully integrated logistics network with modern technology and automation. A National Logistics Portal is also being created to serve as a single-window online marketplace for trade. It will be implemented in three stages: (1) development of an e-marketplace; (2) single-window clearance for approvals from 80 authorities; (3) integration of financial services.

- Five major industrial corridors, the Delhi-Mumbai Industrial Corridor (DMIC), Amritsar-Kolkata Industrial Corridor (AKIC), Chennai-Bengaluru Industrial Corridor (CBIC), Visakhapatnam-Chennai Industrial Corridor (VCIC), and Bengaluru-Mumbai Economic Corridor (BMEC) have been approved by the government for faster freight movement.

TCI Express Ltd.

- The government has announced the development of 35 MMLPs at strategic locations to enable efficient intermodal freight movement.

Peer Comparison as per FY20 Financial

Company	CMP (As on 07-05-2021)	Mcap (Rs. Cr.)	NPM%	RoE%	RoCE%	D/E(x)	TTM P/E (x)
TCI Express	897	3440	9	29	35	0.0	45
Blue Dart Express	5405	12810	-1	-0.1	0.1	2.7	NA
Mahindra Logistics	537	3850	2	11	14	0.1	128

	Sales (Rs. Cr)				EBIDTA Margin (%)				PAT (Rs. Cr)			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
TCI Express	1032	833	1105	1220	12	15	14	14	89	87	110	122
Blue Dart Express*	3175	3206	3707	4160	15	20	21	21	-42	81	193	268
Mahindra Logistics	3471	3332	3849	4599	5	4	5	5	55	43	68	103

*Bloomberg estimate, NA=Not Available

TCI Express Ltd.

Financials

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	**885**	**1024**	**1032**	**833**	**1070**	**1208**
Growth (%)	18.0	15.8	0.9	-19.0	28.7	13.0
Operating Expenses	794	905	911	713	921	1041
EBITDA	**91**	**119**	**121**	**120**	**149**	**167**
Growth (%)	**46.5**	**31.2**	**1.9**	**-1.2**	**24.1**	**12.0**
EBITDA Margin (%)	**10.2**	**11.6**	**11.8**	**14.4**	**13.9**	**13.8**
Other Income	2.1	3.2	4.4	6.5	10.0	12.0
Depreciation	5.2	6.5	7.8	8.8	10.2	11.7
EBIT	**88**	**116**	**118**	**118**	**149**	**167**
Interest	3.8	3.8	0.9	1.0	1.1	1.0
PBT	**84**	**112**	**117**	**117**	**148**	**166**
Tax	25.4	39.0	27.9	29.4	37.2	41.8
RPAT	**58**	**73**	**89**	**87**	**110**	**124**
APAT	**58.4**	**72.8**	**89.1**	**87.3**	**110.5**	**124.2**
Growth (%)	**55.7**	**24.7**	**22.3**	**-2.0**	**26.6**	**12.4**
EPS	15.2	19.0	23.2	22.8	28.8	32.4

Balance Sheet

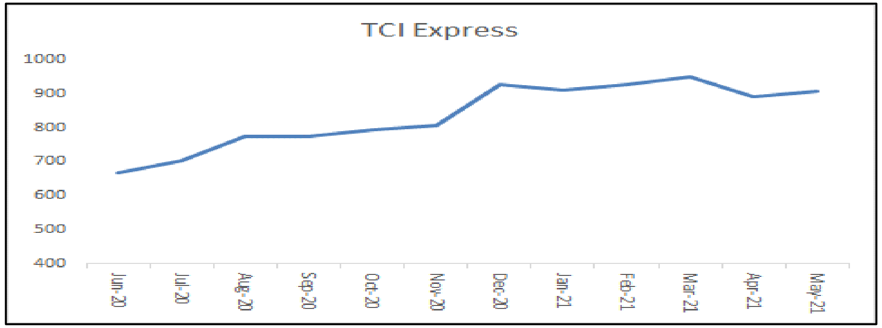
As at March	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS						
Share Capital	**7.7**	**7.7**	**7.7**	**7.7**	**7.7**	**7.7**
Reserves	199	260	330	400	491	594
Money Received	0	0	0	0	0	0
Shareholders' Funds	**207**	**267**	**337**	**407**	**499**	**602**
Long Term Debt	2	2	2	0	0	0
Long Term Provisions & Others	4	6	4	7	7	7
Total Source of Funds	**213**	**275**	**343**	**414**	**506**	**609**
APPLICATION OF FUNDS						
Net Block	162	174	197	265	333	401
Non-Current Investments	0	1	1	1	1	1
Deferred Tax Assets (net)	0	0	0	0	0	0
Long Term Loans & Advances	5	10	12	17	18	19
Total Non Current Assets	**167**	**186**	**209**	**282**	**351**	**420**
Current Investments	0	0	29	57	60	66
Inventories	0	0	0	0	0	0
Trade Receivables	154	163	166	141	173	192
Short term Loans & Advances	9	10	9	10	11	11
Cash & Equivalents	12	17	13	14	18	36
Other Current Assets	1	3	6	6	6	6
Total Current Assets	**177**	**193**	**222**	**229**	**268**	**312**
Short-Term Borrowings	38	6	1	1	1	1
Trade Payables	65	72	62	66	76	83
Other Current Liab & Provisions	25	21	21	25	31	34
Short-Term Provisions	3	4	5	5	6	6
Total Current Liabilities	**131**	**104**	**88**	**97**	**113**	**123**
Net Current Assets	46	89	134	132	155	188
Total Application of Funds	**213**	**275**	**343**	**414**	**506**	**609**

TCI Express Ltd.

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	84	112	117	117	148	166
Adjustment	10	7	8	3	1	1
Working Capital Change	-13	-2	-13	8	-10	-9
Tax Paid	-24	-39	-32	-29	-37	-42
OPERATING CASH FLOW (a)	**56**	**78**	**81**	**98**	**102**	**116**
Capex	-63	-19	-19	-83	-78	-80
Free Cash Flow	-6	59	62	15	24	37
Investments	0	-1	-28	-5	-1	-1
Non-operating income	0	0	1	7	10	12
INVESTING CASH FLOW (b)	**-63**	**-21**	**-46**	**-81**	**-69**	**-69**
Debt Issuance / (Repaid)	8	-31	-6	1	0	0
Interest Expenses	-4	-4	-1	-1	-1	-1
FCFE	-2	25	55	15	23	36
Share Capital Issuance	0	1	2	0	0	0
Dividend	-11	-11	-18	-17	-19	-21
FINANCING CASH FLOW (c)	**-7**	**-45**	**-22**	**-17**	**-20**	**-22**
NET CASH FLOW (a+b+c)	**-13**	**13**	**12**	**0**	**13**	**25**
Reported PBT	84	112	117	117	148	166
Adjustment	10	7	8	3	1	1

One Year Price Chart



Key Ratios

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)						
EBITDA Margin	10.2	11.6	11.8	14.4	13.9	13.8
EBIT Margin	9.9	11.3	11.4	14.1	13.9	13.8
APAT Margin	6.6	7.1	8.6	10.5	10.3	10.3
RoE	31.8	30.7	29.5	23.4	24.4	22.6
RoCE	35.5	41.9	34.7	28.8	29.8	27.7
Solvency Ratio						
D/E	0.2	0.0	0.0	0.0	0.0	0.0
Interest Coverage	23.3	30.6	131.0	117.6	141.6	167.4
PER SHARE DATA						
EPS	44.6	19.0	23.3	22.8	28.8	32.4
CEPS	16.6	20.7	25.3	25.0	31.4	35.4
BV	54	70	88	106	130	157
Dividend	2.5	3.0	4.6	4.5	5.0	5.5
Turnover Ratios (days)						
Debtor days	64	58	59	62	59	58
Inventory days	0	0	0	0	0	0
Creditors days	23	28	27	34	30	29
Working Capital Days	40	31	32	28	29	29
VALUATION						
P/E	58.9	47.2	38.6	39.4	31.1	27.7
P/BV	16.6	12.9	10.2	8.4	6.9	5.7
EV/EBITDA	27.2	20.7	20.3	20.6	16.6	14.8
Dividend Yield	0.3	0.3	0.5	0.5	0.6	0.6
Dividend Payout	5.6	15.8	19.8	19.8	17.4	17.0

(Source: Company, HDFC sec)

Disclosure:

I**, Jimit Zaveri, (MBA - Finance),** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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