

RESEARCH

TCI Express | Target: Rs 785 | +38% | BUY

Macro slowdown derails growth

SUMMARY

TCI Express

The subdued macro climate weighed on TCI Express' (TCIEXP) Q1FY20 results. Topline growth decelerated to 3.5% YoY, below our estimate of 7%, owing to meagre 2% tonnage growth. Efficiency gains lifted the gross margin by 310bps YoY, supporting EBITDA margin expansion of 67bps YoY to 11.6%. While long-term structural prospects are intact, we cut our target P/E multiple to 26x from 30x given near-term growth challenges. Pruning FY20/FY21 EPS by ~2% each and rolling valuations forward, we have a lower Jun'20 TP of Rs 785 (vs. Rs 880).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL*	Buy	245
ONGC	Buy	230
TCS	Add	2,360
HPCL	Sell	210

*GAIL target price is adjusted for the 1:1 bonus issue

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	780
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.06	(1bps)	5bps	(90bps)
India 10Y yield (%)	6.39	(2bps)	(49bps)	(138bps)
USD/INR	68.86	(0.2)	0.2	(0.5)
Brent Crude (US\$/bbl)	64.72	1.6	(2.7)	(12.8)
Dow	27,198	(0.1)	2.2	7.0
Shanghai	2,952	0.4	(0.9)	2.6
Sensex	37,397	(0.8)	(5.1)	(0.6)
India FII (US\$ mn)	29 Jul	MTD	CYTD	FYTD
FII-D	(17.5)	1,065.2	2,493.4	1,948.8
FII-E	(54.3)	(1,623.1)	9,715.7	2,870.5

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY

TP: Rs 785 | ▲ 38%

TCI EXPRESS

Logistics

31 July 2019

Macro slowdown derails growth

The subdued macro climate weighed on TCI Express' (TCIEXP) Q1FY20 results. Topline growth decelerated to 3.5% YoY, below our estimate of 7%, owing to meagre 2% tonnage growth. Efficiency gains lifted the gross margin by 310bps YoY, supporting EBITDA margin expansion of 67bps YoY to 11.6%. While long-term structural prospects are intact, we cut our target P/E multiple to 26x from 30x given near-term growth challenges. Pruning FY20/FY21 EPS by ~2% each and rolling valuations forward, we have a lower Jun'20 TP of Rs 785 (vs. Rs 880).

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Revenue growth decelerates: After a soft Q4FY19, revenue growth moderated further to 3.5% YoY, coming in at Rs 2.6bn. The general economic slowdown coupled with election-related uncertainty restricted tonnage growth to ~2% YoY, while realisations increased just ~1.5%. Growth was aided by the addition of SME clients, whereas tonnage from existing accounts was flat.

Margin resilience encouraging: Despite sedate topline growth, TCIEXP's EBITDA margin continued its uptrend, expanding 67bps YoY to 11.6%. Realisation gains and operating efficiency propelled gross margins up 310bps YoY, which negated the impact of higher employee costs (+154bps) and other expenses (+90bps). EBITDA grew 9.8% YoY, spurring PAT growth of 14.2%.

Management sees growth on the mend: Management opines that growth is on the mend with receding headwinds and expects ~12%/15% YoY tonnage/topline growth in Jul'19. Hence, topline growth guidance for FY20 has been lowered only marginally to 17-18% (18-20% earlier). We are more cautious on near-term prospects and build in conservative ~11% growth in FY20 revenue.

Maintain BUY: Considering near-term headwinds, we cut our target P/E to 26x and trim FY20/FY21 earnings estimates, yielding a revised Jun'20 TP of Rs 785.

Ticker/Price	TCIEXP IN/Rs 569
Market cap	US\$ 316.5mn
Shares o/s	38mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 768/Rs 541
Promoter/FPI/DII	67%/4%/5%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	584	728	864	1,084	1,358
Adj. EPS (Rs)	15.3	19.0	22.6	28.3	35.5
Adj. EPS growth (%)	55.8	24.7	18.6	25.5	25.2
Adj. ROAE (%)	31.8	30.7	28.6	28.4	28.3
Adj. P/E (x)	37.3	29.9	25.2	20.1	16.0
EV/EBITDA (x)	24.3	18.5	15.7	12.5	10.0

Source: Company, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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