

BUY

TP: Rs 770 | ▲ 39%

TCI EXPRESS

Logistics

27 March 2020

Equipped to weather the Covid-19 storm; upgrade to BUY

Our recent interaction with the TCI Express (TCIEXP) management indicates severe pressure on near-term operational performance stemming from the Covid-19 outbreak. Despite this, we believe TCIEXP's long-term prospects remain robust and it is relatively insulated vs. peers thanks to its asset-light model, robust balance sheet and low concentration risk. Though we cut FY20-FY22 earnings by 5-25% and lower our Mar'21 TP to Rs 770 (vs. Rs 895), we upgrade the stock to BUY from ADD as it is attractive at 17x FY22 P/E post the recent 40% correction.

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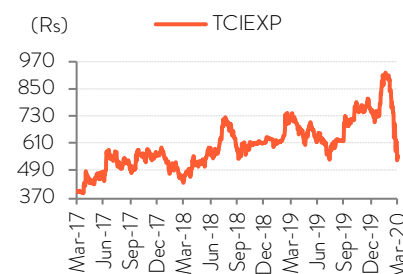
Near-term outlook bleak: As per management, volumes grew at a decent clip in Jan-Feb'20, but restrictions to curb the spread of Covid-19 have severely impeded operations over the past couple of weeks. The country-wide lockdown from 25 March has disrupted most of TCIEXP's transport routes. While the full impact of the coronavirus is difficult to assess at this early stage, we expect a YoY decline in topline from Q4FY20 through to Apr-Jun'20, at least.

Ticker/Price	TCIEXP IN/Rs 553
Market cap	US\$ 281.2mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 949/Rs 494
Promoter/FPI/DII	67%/4%/6%

Source: NSE

Relatively insulated from disruption: Though operating performance is bound to be affected, we believe TCIEXP is relatively better off than peers due to (1) low operating leverage stemming from its asset-light model, (2) a strong, debt-free balance sheet, and (3) its diversified presence across industries and clients, which mitigates concentration risks.

STOCK PERFORMANCE



Source: NSE

Long-term growth foundations intact: We continue to believe that TCIEXP has the right attributes for long-term success in India's express logistics industry, given its (1) focus on the fast-growing surface express and B2B verticals, (2) wide and diverse clientele, (3) vast network of 800 branches, 28 hubs, and 40,000+ pickup and delivery locations covering ~95% of all pin codes in India, and (4) industry-leading ROE/ROCE (30%+). These attributes should hold the company in good stead till demand recovers.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	8,851	10,238	10,444	10,970	13,120
EBITDA (Rs mn)	907	1,190	1,267	1,234	1,716
Adj. net profit (Rs mn)	584	728	913	882	1,226
Adj. EPS (Rs)	15.3	19.0	23.8	23.0	32.0
Adj. EPS growth (%)	55.8	24.7	25.4	(3.4)	39.1
Adj. ROAE (%)	31.8	30.7	30.1	23.5	26.7
Adj. P/E (x)	36.2	29.1	23.2	24.0	17.3
EV/EBITDA (x)	23.6	18.0	16.8	17.0	12.1

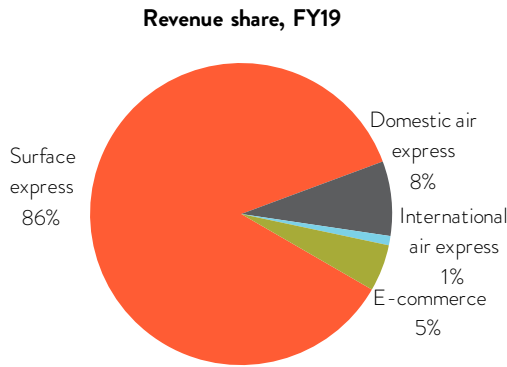
Source: Company, BOBCAPS Research

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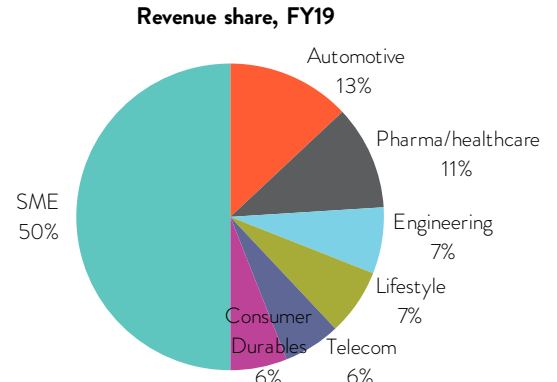


FIG 1 – FAST-GROWING SURFACE EXPRESS SEGMENT REMAINS THE MAINSTAY



Source: Company, BOBCAPS Research

FIG 2 – DIVERSIFIED PRESENCE ACROSS INDUSTRIES LIMITS CONCENTRATION RISK



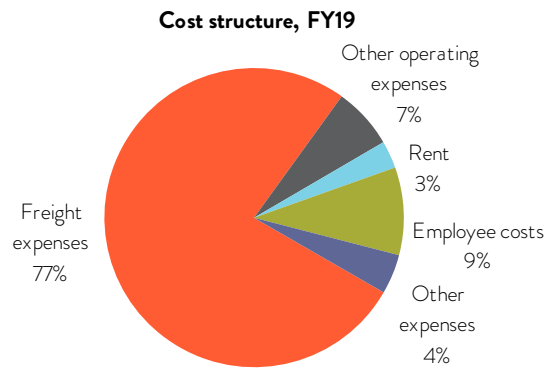
Source: Company, BOBCAPS Research

FIG 3 – CLIENT BASE INCLUDES MARQUEE LOGOS



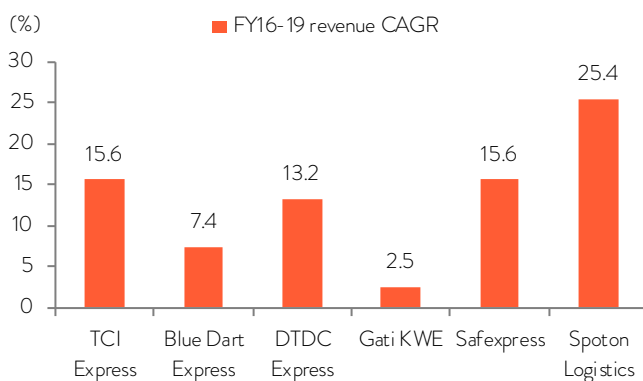
Source: Company, BOBCAPS Research

FIG 4 – FREIGHT AND OTHER OPERATING EXPENSES (VARIABLE COSTS) DOMINATE COST STRUCTURE



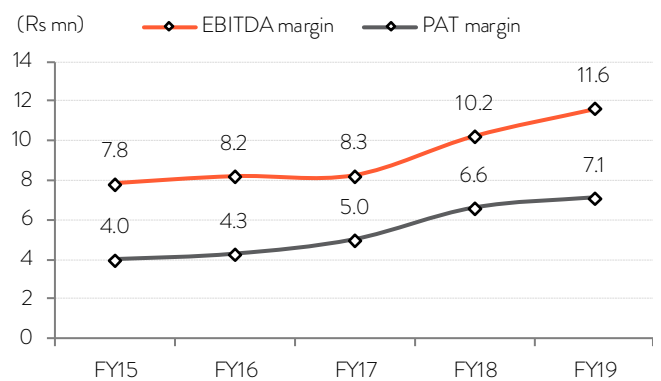
Source: Company, BOBCAPS Research

FIG 5 – TCIEXP HAS GROWN FASTER THAN MOST EXPRESS LOGISTICS PEERS



Source: Company, Ministry of Corporate Affairs, BOBCAPS Research

FIG 6 – BOTH EBITDA AND PAT MARGINS HAVE EXPANDED STEADILY IN PAST YEARS



Source: Company, BOBCAPS Research

Valuation methodology

Though it is difficult to assess the potential impact of Covid-19 at this stage, we attempt to factor in the risk by assuming severe demand headwinds in the current and next quarter, followed by a gradual recovery. Accordingly, we slash our FY20/FY21/FY22 earnings estimates by 5%/24%/14%, which translates to a reduced Mar'21 target price of Rs 770 (from Rs 895 earlier), set at an unchanged 24x FY22E EPS multiple. Our estimates are highly contingent upon the course of the pandemic – a wider spread of the outbreak over a longer duration would likely lead to an elongated lockdown period, slowing economic activity and hence our estimates.

We remain constructive on TCIEXP's long-term prospects and expect the company to benefit from (1) multiple long-term structural industry tailwinds – rising share of surface express over air express and a shift in customer preference towards pan-India express players, (2) focus on the fast growing surface express and B2B segments, and (3) a wide geographic reach. Given the company's fundamental strengths, we believe the recent plunge in stock price (~40% since 18 Feb to current valuations of 17x FY22E EPS) offers an attractive opportunity from a long-term perspective. Upgrade to BUY from ADD.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	10,860	10,444	(3.8)	12,690	10,970	(13.6)	14,901	13,120	(12.0)
EBITDA	1,321	1,267	(4.1)	1,621	1,234	(23.8)	1,994	1,716	(13.9)
EBITDA margin (%)	12.2	12.1	(3bps)	12.8	11.3	(152bps)	13.4	13.1	(30bps)
PAT	956	913	(4.5)	1,162	882	(24.1)	1,426	1,226	(14.0)
PAT margin (%)	25.0	23.8	(4.5)	30.3	23.0	(24.1)	37.2	32.0	(14.0)

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Prolonged economic impact from Covid-19 outbreak:** Our estimates are contingent upon the length and extent of the spread of the coronavirus. If the outbreak continues unabated, the government may have to extend the lockdown period and/or implement other preventive measures. This will have a negative impact on our estimates.
- **Extended downturn in end-user verticals:** A prolonged slowdown in key end-user verticals such as pharma and auto would affect our estimates.
- **ROCE dilution:** We see a potential risk of ROCE dilution after the company transitions to owned sorting centres, if revenue and cost benefits are inadequate to generate the same returns as those earned under the present leased model.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	8,851	10,238	10,444	10,970	13,120
EBITDA	907	1,190	1,267	1,234	1,716
Depreciation	52	65	81	104	126
EBIT	854	1,125	1,185	1,131	1,590
Net interest income/(expenses)	(38)	(38)	(7)	0	0
Other income/(expenses)	21	32	43	48	50
Exceptional items	0	0	0	0	0
EBT	838	1,119	1,221	1,179	1,640
Income taxes	254	390	308	297	413
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	584	728	913	882	1,226
Adjustments	0	0	0	0	0
Adjusted net profit	584	728	913	882	1,226

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	646	724	858	902	1,078
Other current liabilities	240	200	204	214	256
Provisions	35	41	42	44	53
Debt funds	407	98	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	77	77	77	77	77
Reserves & surplus	1,992	2,595	3,326	4,031	5,013
Shareholders' fund	2,068	2,672	3,403	4,108	5,089
Total liabilities and equities	3,395	3,735	4,507	5,268	6,476
Cash and cash eq.	122	171	184	451	584
Accounts receivables	1,544	1,631	1,717	1,803	2,157
Inventories	0	0	0	0	0
Other current assets	101	128	131	137	164
Investments	0	13	13	13	13
Net fixed assets	1,602	1,716	2,398	2,794	3,468
CWIP	0	14	0	0	0
Intangible assets	18	15	15	15	15
Deferred tax assets, net	(43)	(55)	(55)	(55)	(55)
Other assets	52	102	104	110	131
Total assets	3,395	3,735	4,507	5,268	6,476

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	636	794	995	985	1,353
Interest expenses	38	38	7	0	0
Non-cash adjustments	9	12	0	0	0
Changes in working capital	44	(122)	50	(43)	(175)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	727	722	1,052	943	1,178
Capital expenditures	(622)	(189)	(750)	(500)	(800)
Change in investments	0	(13)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(622)	(202)	(750)	(500)	(800)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	90	(308)	(98)	0	0
Interest expenses	(38)	(38)	(7)	0	0
Dividends paid	(129)	(134)	(183)	(176)	(245)
Other financing cash flows	5	10	0	0	0
Cash flow from financing	(71)	(471)	(288)	(176)	(245)
Changes in cash and cash eq.	34	49	13	266	133
Closing cash and cash eq.	122	171	184	451	584

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	15.3	19.0	23.8	23.0	32.0
Adjusted EPS	15.3	19.0	23.8	23.0	32.0
Dividend per share	2.8	3.0	4.8	4.6	6.4
Book value per share	54.0	69.8	88.8	107.3	132.9

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.4	2.1	2.0	1.9	1.6
EV/EBITDA	23.6	18.0	16.8	17.0	12.1
Adjusted P/E	36.2	29.1	23.2	24.0	17.3
P/BV	10.2	7.9	6.2	5.2	4.2

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	69.7	65.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	98.0	99.5	103.0	104.3	103.1
EBIT margin (EBIT/Revenue)	9.7	11.0	11.4	10.3	12.1
Asset turnover (Revenue/Avg TA)	4.0	3.8	3.3	2.9	2.8
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.0	1.0	1.0
Adjusted ROAE	31.8	30.7	30.1	23.5	26.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	18.0	15.7	2.0	5.0	19.6
EBITDA	46.5	31.3	6.5	(2.6)	39.0
Adjusted EPS	55.8	24.7	25.4	(3.4)	39.1
Profitability & Return ratios (%)					
EBITDA margin	10.2	11.6	12.1	11.3	13.1
EBIT margin	9.7	11.0	11.4	10.3	12.1
Adjusted profit margin	6.6	7.1	8.7	8.0	9.3
Adjusted ROAE	31.8	30.7	30.1	23.5	26.7
ROCE	38.2	42.1	37.7	29.7	34.2
Working capital days (days)					
Receivables	64	58	60	60	60
Inventory	0	0	0	0	0
Payables	30	29	34	34	35
Ratios (x)					
Gross asset turnover	6.1	5.5	4.5	3.7	3.6
Current ratio	1.9	2.0	1.8	2.1	2.1
Net interest coverage ratio	22.7	29.8	160.9	NM	NM
Adjusted debt/equity	0.1	0.0	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

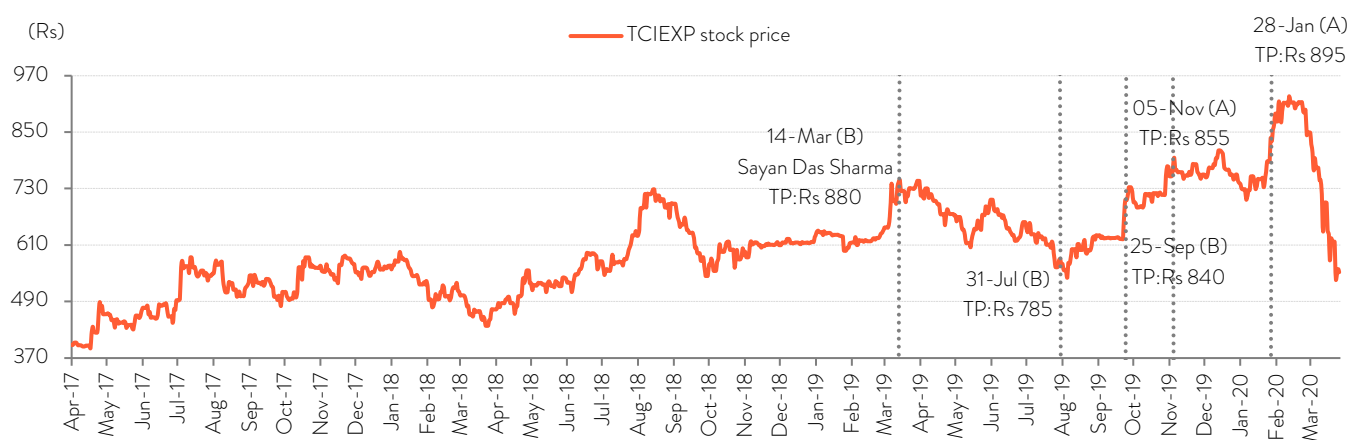
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: TCI EXPRESS (TCIEXP IN)



B – Buy, A – Add, R – Reduce, S – Sell

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