

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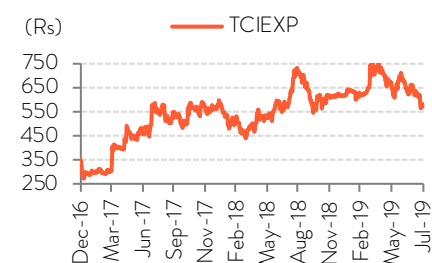
Revenue growth decelerates: After a soft Q4FY19, revenue growth moderated further to 3.5% YoY, coming in at Rs 2.6bn. The general economic slowdown coupled with election-related uncertainty restricted tonnage growth to ~2% YoY, while realisations increased just ~1.5%. Growth was aided by the addition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

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

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%.

STOCK PERFORMANCE



Source: NSE

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.

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

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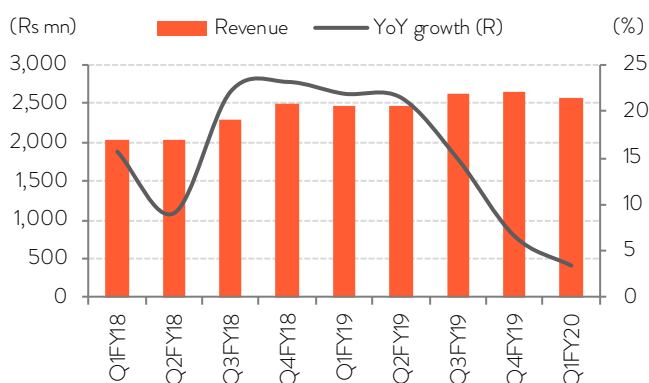


FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	2,562	2,476	3.5	2,658	(3.6)
Operating expenses	1,852	1,867	(0.8)	1,894	(2.2)
% of sales	72.3	75.4	(310bps)	71.2	108bps
Employee expenses	254	207	22.5	223	13.6
% of sales	9.9	8.4	154bps	8.4	150bps
Other expenses	160	132	20.8	204	(21.5)
% of sales	6.2	5.3	90bps	7.7	(142bps)
Total expenditure	2,266	2,206	2.7	2,321	(2.4)
EBITDA	296	270	9.8	338	(12.4)
EBITDA margin (%)	11.6	10.9	67bps	12.7	(116bps)
Depreciation	18	15	21.4	17	4.1
EBIT	278	255	9.1	321	(13.3)
Interest expenses	2	12	(80.7)	5	(52.1)
Other income	7	5	43.1	12	(39.2)
Extraordinary income/(expense)	-	-	NM	-	NM
PBT	283	248	14.1	328	(13.7)
PBT margin (%)	11.1	10.0	103bps	12.3	(128bps)
Tax rate	99	87	14.0	111	(10.5)
Tax rate (%) – total	35.0	35.1	(4bps)	33.8	125bps
Reported PAT	184	161	14.2	217	(15.3)
Adjustment	-	-	NM	-	NM
Adjusted PAT	184	161	14.2	217	(15.3)
Adjusted PAT margin (%)	7.2	6.5	68bps	8.2	(99bps)
Adjusted EPS	4.8	4.2	14.2	5.7	(15.3)

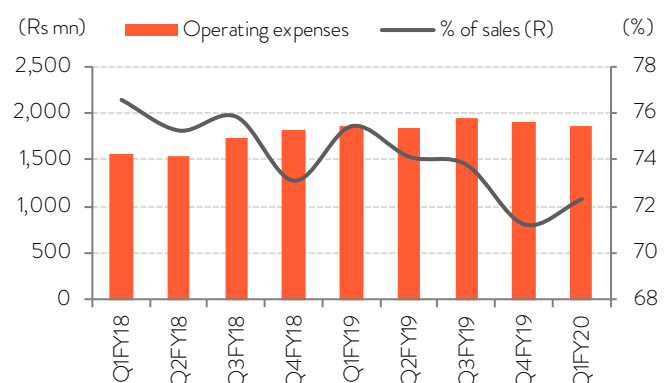
Source: Company, BOBCAPS Research

FIG 2 – REVENUE GROWTH DECELERATED TO 3.5% YOY IN Q1FY20 FROM 15.7% IN FY19

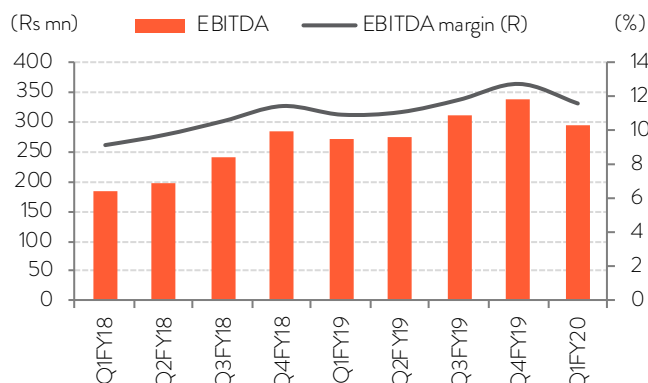


Source: Company, BOBCAPS Research

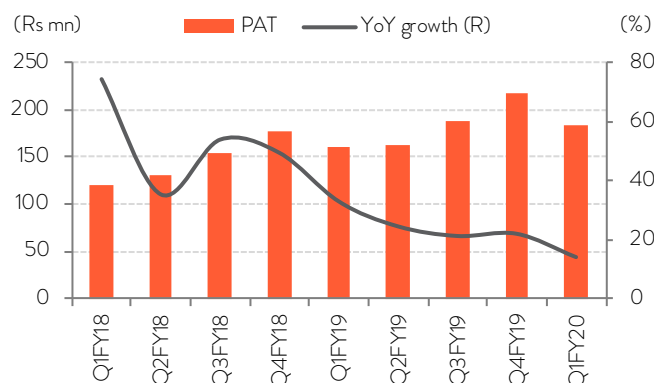
FIG 3 – OPERATING EXPENSES DECLINED 310BPS AS A PERCENTAGE OF SALES...



Source: Company, BOBCAPS Research

FIG 4 – ...DRIVING EBITDA MARGIN EXPANSION OF 67BPS YOY TO 11.6%


Source: Company, BOBCAPS Research

FIG 5 – PAT INCREASED 14.2% YOY TO RS 184MN IN Q1FY20


Source: Company, BOBCAPS Research

Earnings call takeaways

- Tonnage growth was sedate in Q1FY20 at ~2% YoY, while realisations inched up 1.5%. Growth was aided by the addition of SME clients.
- Management believes growth is on the mend as election-related uncertainty is behind us and is expecting a jump in revenue by 15% YoY in July, supported by a 12% rise in tonnage.
- Confident that this recovery will sustain, management has only marginally pared its topline guidance for FY20 to 17-18% from 18-20% previously, baking in 14-15% tonnage growth and ~3% realisation gains.
- The SME and corporate client mix remains stable at 50:50, and this balance should be maintained going ahead as well.
- Employee costs have increased sharply by 22.5% YoY in Q1 as the company has added manpower, both for corporate functions and at branch levels.
- Margin trajectory is likely to be maintained in FY20 aided by an improvement in tonnage growth and efficiency gains.
- TCIEXP has received requisite clearances for the Gurgaon (200,000sq ft) and Pune (150,000sq ft) sorting centres. These facilities will be fully automated, and are ~4x the size of existing centres. Construction work is likely to be completed by end-FY20, with operations targeted to commence from Q1FY21 onwards.
- Management has lowered the FY20 capex target to Rs 600mn from Rs 800mn earlier (Rs 20mn spent in Q1) as clearances for some sorting centres have been delayed. Of this, Rs 350mn/Rs 150mn is likely to be deployed towards the Gurgaon/Pune centres.

- TCIEXP opened 10 new branches during the quarter, taking the total count to 710 branches. The focus is on metros, tier-I and tier-II cities.
- The express logistics market is highly unorganised (~95%). Management remains positive of a shift in demand from unorganised to organised pan-India players. Strict implementation of GST and e-way bill is likely to hasten this shift.
- TCIEXP does not intend to concentrate on the domestic air express segment as it is losing market share to surface express, which is the company's core focus area. The cost difference between these two modes is a major reason for the shift; even e-commerce players have started switching over to surface express, as per management. At the same time, the international air express segment is comparatively more attractive.
- Potential of the e-commerce segment (5% of total revenue) is also less attractive than the B2B segment and hence the company will maintain its focus on the latter.
- The company has repaid its entire debt during the quarter and has Rs 100mn of surplus cash as at end-Q1.

Valuation methodology

A temporary growth slowdown notwithstanding, we remain constructive on TCIEXP's long-term prospects. We expect the company to benefit from (1) multiple structural industry tailwinds – implementation of GST/ e-way bill, 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 – ~95% of all pin codes in India, 40,000 pickup and delivery locations.

The uptrend in EBITDA margin is projected to continue aided by a higher share of owned sorting centres and efficiency gains. Our revenue/EBITDA/PAT CAGR estimates stand at 16%/22%/23% over FY19-FY22, with industry-leading ROE/ROCE of 28%/42% in FY22.

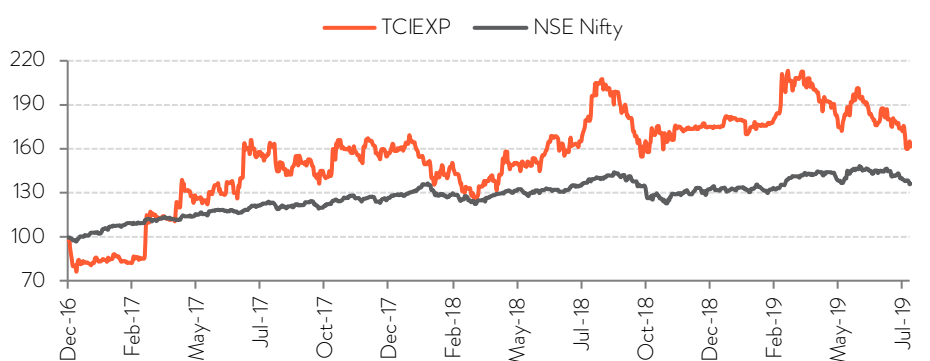
We prune our FY20/FY21 earnings estimates by 2.3%/1.9%, factoring in the Q1FY20 underperformance. Also, taking note of the near-term growth headwinds that we believe may continue over the next few months, we reduce our target one-year forward P/E multiple to 26x from 30x earlier. This coupled with rollover to Jun'21 valuations translates to a reduced target price of Rs 785 (from Rs 880 earlier). Maintain BUY.

FIG 6 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Revenues	11,696	11,382	(2.7)	13,786	13,417	(2.7)	15,893
EBITDA	1,424	1,385	(2.7)	1,776	1,728	(2.7)	2,168
EBITDA margin (%)	12.2	12.2	0	12.9	12.9	0bps	13.6
PAT	885	864	(2.3)	1,105	1,084	(1.9)	1,358
PAT margin (%)	7.6	7.6	(3bps)	8.0	8.1	7bps	8.5

Source: Company, BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Lower capacity utilisation in sorting centres and vehicles
- Delay in demand recovery from key sectors
- Acute price competition
- Increased competition from pan-India express players

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	8,851	10,238	11,382	13,417	15,893
EBITDA	907	1,190	1,385	1,728	2,168
EBIT	854	1,125	1,300	1,625	2,037
Net interest income/(expenses)	(38)	(38)	(7)	0	0
Other income/(expenses)	21	32	43	43	21
Exceptional items	0	0	0	0	0
EBT	838	1,119	1,335	1,668	2,058
Income taxes	254	390	471	584	700
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	584	728	864	1,084	1,358
Adjustments	0	0	0	0	0
Adjusted net profit	584	728	864	1,084	1,358

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	646	724	804	948	1,123
Other current liabilities	240	200	222	262	310
Provisions	35	41	46	54	64
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	3,300	4,184	5,271
Shareholders' fund	2,068	2,672	3,377	4,261	5,347
Total liabilities and equities	3,395	3,735	4,449	5,525	6,844
Cash and cash eq.	122	171	105	105	293
Accounts receivables	1,544	1,631	1,871	2,206	2,612
Inventories	0	0	0	0	0
Other current assets	101	128	142	168	199
Investments	0	13	13	13	13
Net fixed assets	1,602	1,716	2,244	2,940	3,609
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	114	134	159
Total assets	3,395	3,735	4,449	5,525	6,844

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	636	794	950	1,188	1,490
Interest expenses	38	38	7	0	0
Non-cash adjustments	9	12	0	0	0
Changes in working capital	44	(122)	(158)	(189)	(229)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	727	722	799	999	1,260
Capital expenditures	(622)	(189)	(600)	(800)	(800)
Change in investments	0	(13)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(622)	(202)	(600)	(800)	(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)	(159)	(200)	(272)
Other financing cash flows	5	10	0	0	0
Cash flow from financing	(71)	(471)	(265)	(200)	(272)
Changes in cash and cash eq.	34	49	(66)	(1)	189
Closing cash and cash eq.	122	171	105	105	293

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	15.3	19.0	22.6	28.3	35.5
Adjusted EPS	15.3	19.0	22.6	28.3	35.5
Dividend per share	2.8	3.0	4.2	5.2	7.1
Book value per share	54.0	69.8	88.2	111.3	139.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.5	2.2	1.9	1.6	1.4
EV/EBITDA	24.3	18.5	15.7	12.5	10.0
Adjusted P/E	37.3	29.9	25.2	20.1	16.0
P/BV	10.5	8.2	6.5	5.1	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	69.7	65.1	64.7	65.0	66.0
Interest burden (PBT/EBIT)	98.0	99.5	102.7	102.7	101.0
EBIT margin (EBIT/Revenue)	9.7	11.0	11.4	12.1	12.8
Asset turnover (Revenue/Avg TA)	4.0	3.8	3.6	3.5	3.3
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.0	1.0	1.0
Adjusted ROAE	31.8	30.7	28.6	28.4	28.3

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	11.2	17.9	18.5
EBITDA	46.5	31.3	16.4	24.8	25.5
Adjusted EPS	55.8	24.7	18.6	25.5	25.2
Profitability & Return ratios (%)					
EBITDA margin	10.2	11.6	12.2	12.9	13.6
EBIT margin	9.7	11.0	11.4	12.1	12.8
Adjusted profit margin	6.6	7.1	7.6	8.1	8.5
Adjusted ROAE	31.8	30.7	28.6	28.4	28.3
ROCE	37.4	41.9	42.7	43.1	42.3
Working capital days (days)					
Receivables	64	58	60	60	60
Inventory	0	0	0	0	0
Payables	30	29	29	30	30
Ratios (x)					
Gross asset turnover	6.1	5.5	5.1	4.5	4.2
Current ratio	1.9	2.0	2.0	2.0	2.1
Net interest coverage ratio	22.7	29.8	176.5		
Adjusted debt/equity	0.1	0.0	0.0	0.0	(0.1)

Source: Company, BOBCAPS Research

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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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