

BUY

TP: Rs 840 | ▲ 16%

TCI EXPRESS

| Logistics

| 27 July 2020

Asset-light model fortifies margins

Though TCI Express's (TCIEXP) topline nosedived 65% YoY in Q1FY21 amidst challenging externalities, it posted a remarkable 715bps YoY expansion in gross margin to 35%, underpinning the strength of its asset-light business model. This coupled with lower fixed costs enabled the company to achieve breakeven, with EBITDA/PAT at Rs 20mn/Rs 1mn. Demand is recovering gradually, and we expect TCIEXP's topline to grow from H2 onwards. We roll over valuations to Sep'22 and revise our TP to Rs 840 (vs. Rs 750). **BUY.**

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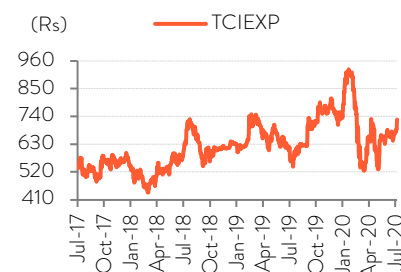
Revenue fell steeply...: Revenue declined sharply by 65% YoY to Rs 887mn, owing to a 67% drop in volumes. Realisation, however, rose ~5% YoY as the company took a calibrated price hike. After a washout in April, utilisation gradually ticked up to 35%/70%/80% in May/June/July, augmented by a gradual easing of lockdown restrictions. Management expects to reach pre-Covid levels in August/September and to end FY21 with a flattish topline, implying 35-40% YoY growth in H2. We, however, assume a 9% drop in topline, baking in a more measured ~20% growth rate in H2FY21.

Ticker/Price	TCIEXP IN/Rs 727
Market cap	US\$ 372.2mn
Shares o/s	38mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 949/Rs 456
Promoter/FPI/DII	67%/2%/9%

Source: NSE

...but EBITDA breakeven impressive: Notwithstanding the topline plunge, TCIEXP achieved operating breakeven, through lower operating expenses (-715bps YoY) and tight control on fixed costs (-30% YoY). Better route optimisation boosted YoY utilisation of hired trucks (~90% vs. ~84%); this coupled with a rate hike catalysed gross margin expansion. Management estimates a ~20% cut in fixed costs in FY21 and expects a 14% EBITDA margin. We build in a 11.4% margin due to lower topline estimates.

STOCK PERFORMANCE



Source: NSE

Reiterate BUY: We lower our FY21/FY22 EPS estimates by 3% each, baking in below-estimated revenue in Q1. We marginally raise target P/E to 25x (vs. 24x) and roll-forward valuations to Sep'22. Our TP stands revised to Rs 840.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,238	10,320	9,427	11,788	13,720
EBITDA (Rs mn)	1,190	1,213	1,070	1,591	1,907
Adj. net profit (Rs mn)	728	891	781	1,166	1,404
Adj. EPS (Rs)	19.0	23.2	20.4	30.4	36.6
Adj. EPS growth (%)	24.7	22.3	(12.3)	49.3	20.4
Adj. ROAE (%)	30.7	29.5	21.2	26.1	25.6
Adj. P/E (x)	38.2	31.3	35.7	23.9	19.9
EV/EBITDA (x)	23.6	23.0	25.8	17.3	14.4

Source: Company, BOBCAPS Research

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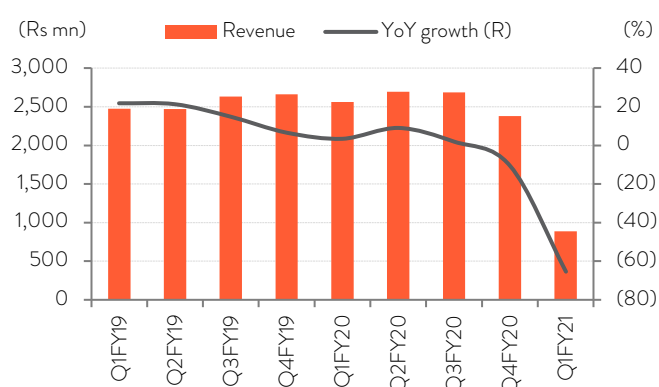
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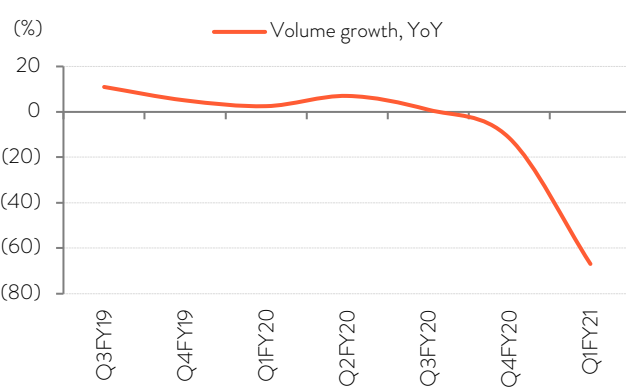
FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	887	2,562	(65.4)	2,379	(62.7)
Operating expenses	578	1,852	(68.8)	1,665	(65.3)
% of sales	65.2	72.3	(714bps)	70.0	(480bps)
Employee expenses	187	254	(26.2)	250	(25.1)
% of sales	21.1	9.9	1,120bps	10.5	1,059bps
Other expenses	102	160	(36.5)	198	(48.6)
% of sales	11.4	6.2	520bps	8.3	314bps
Total expenditure	867	2,266	(61.7)	2,113	(59.0)
EBITDA	20	296	(93.1)	267	(92.4)
EBITDA margin (%)	2.3	11.6	(926bps)	11.2	(893bps)
Depreciation	21	18	20.5	21	2.4
EBIT	(1)	278	NM	246	NM
Interest expenses	1	2	(47.8)	3	(55.6)
Other income	15	7	101.4	12	25.6
PBT	-	-	-	-	-
PBT margin (%)	13	283	(95.6)	255	(95.1)
Extraordinary income/(expense)	1.4	11.1	(964bps)	10.7	(930bps)
Income tax	3	99	(96.6)	65	(94.8)
Tax rate (%)	27.0	35.0	(803bps)	25.5	150bps
Reported PAT	9	184	(95.0)	190	(95.2)
Adjustment	-	-	-	-	-
Adjusted PAT	9	184	(95.0)	190	(95.2)
Adjusted PAT margin (%)	1.0	7.2	(615bps)	8.0	(695bps)
Adjusted EPS	0.2	4.8	(95.0)	5.0	(95.2)

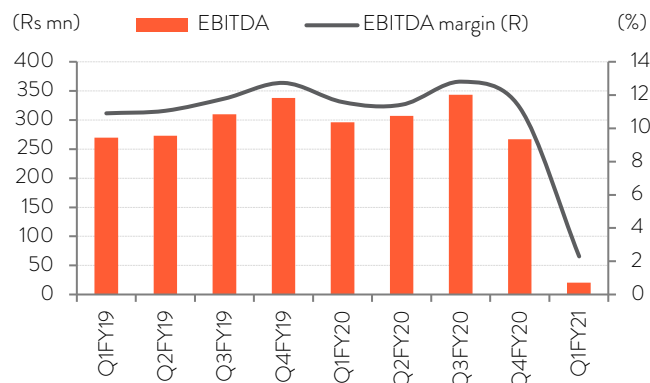
Source: Company, BOBCAPS Research

FIG 2 – REVENUE FELL SHARPLY BY 65% YOY IN Q1FY21

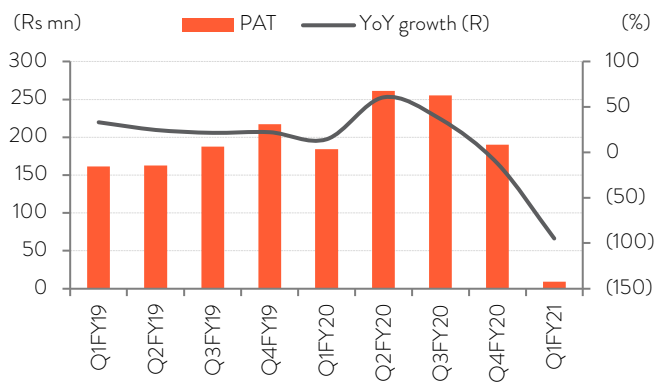
Source: Company, BOBCAPS Research

FIG 3 – VOLUME PLUNGED 67% YOY AMIDST LOCKDOWN-INDUCED DISRUPTIONS

Source: Company, BOBCAPS Research

FIG 4 – ACHIEVED OPERATING BREAKEVEN DUE TO COST CONTROL, EBITDA DOWN 93% YOY


Source: Company, BOBCAPS Research

FIG 5 – PAT DECLINED 95% YOY TO RS 9MN


Source: Company, BOBCAPS Research

Earnings call takeaways

- Q1FY21 tonnage contracted 67% YoY to 73k tonnes, implying a ~5% increase in realisation. Tonnage in the same year-ago quarter was 221k tonnes.
- After a washout performance in Apr'20, utilisation gradually improved to 35%/70% in May/June in tandem with further easing of lockdown restrictions. Utilisation has picked up to 80% in July.
- Management expects revenue to return to pre-Covid levels in August/September, with demand revival from the festive season onwards. TCIEXP expects to grow ~40% YoY in H2FY21 and achieve a flat topline in FY21.
- Prices have been increased by ~3% across 30-35% of its customers. The company plans to extend the hike to other customers as well, resulting in a ~3% rate increase for FY21.
- Reduction in operating expenses as a percentage of sales was driven by better capacity utilisation (to 88-90% from 83-84% in Q1FY20), achieved through route optimisation, and the rate hike of 3%.
- Employee expenses declined to Rs 187mn in Q1FY21 from Rs 254mn in Q1FY20 on account of a voluntary salary cut taken by the MD, lower incentives, and reduced employee training expenses.
- Other expenses reduced to Rs 102mn from Rs 160mn in the year-ago quarter owing to lower conveyance/travelling expenses and stationary costs, among others.
- TCIEXP expects fixed expenses in FY21 to be ~20% lower than FY20 due to cost-cutting measures. Management is targeting a ~10% reduction in fixed expense in FY22, over the FY20 base.

- The company incurred Rs 160mn of capex in Q1FY21, towards construction of the owned sorting centres in Gurgaon and Pune and also to enhance automation across existing facilities. The new sorting centres are scheduled to commence operations from Q3FY21.
- Estimated rental savings from transitioning of two leased sorting centres to the owned units is likely to be ~Rs 30mn/annum.
- Cash balance improved to Rs 700mn from Rs 350mn in FY20 as better collection of dues resulted in a sharp decline in receivables outstanding.

Valuation methodology

We reduce our FY21/FY22 revenue estimates by 7% each to bake in the below-expected Q1FY21 topline, while raising EBITDA margin assumptions considering the tight leash on operating costs. Accordingly, our earnings estimates move down 3% each for FY21 and FY22. The impact of our earnings revision in valuations is negated by (1) a marginal increase in target P/E multiple to 25x from 24x as demand uncertainty has reduced with the gradual easing of restrictions since our [last note on May 11](#), and (2) roll over of valuations to Sep'22. Consequently, our Sep'21 target price stands revised to Rs 840 vs. Rs 750 earlier. Maintain BUY.

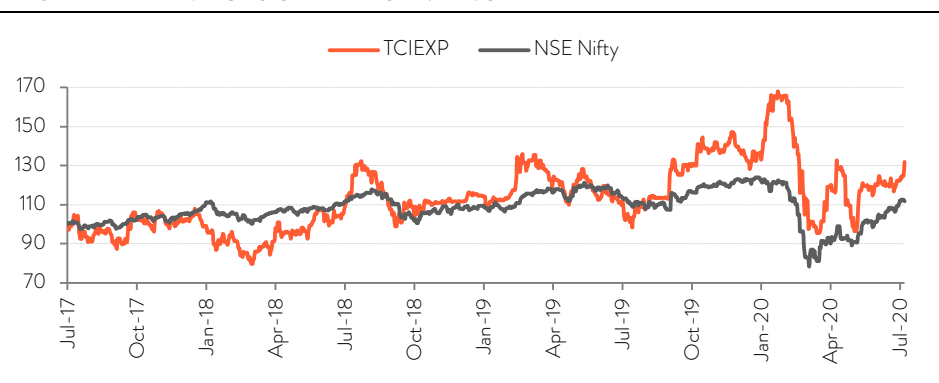
The strong Q1FY21 operating performance reinforces our confidence in TCIEXP's business model. Apart from a superior asset-light operating model, we also expect the company to benefit from (1) multiple long-term structural industry tailwinds, viz. a rising share of surface express over air express and a shift in customer preference towards pan-India express players, (2) its focus on the fast growing surface express and B2B segments, and (3) a wide geographic reach. TCIEXP remains our top long-term fundamental pick in the logistics sector.

FIG 6 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Revenues	10,126	9,427	(6.9)	12,653	11,788	(6.8)	13,720
EBITDA	1,114	1,070	(3.9)	1,655	1,591	(3.8)	1,907
EBITDA margin (%)	11.0	11.4	35	13.1	13.5	42	13.9
PAT	800	781	(2.4)	1,198	1,166	(2.7)	1,404
PAT margin (%)	20.9	20.4	(2.4)	31.2	30.4	(2.7)	36.6

Source: Company, BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Lingering impact of Covid-19 pandemic on economic activity
- Sharp decline in utilisation levels and corresponding dilution in gross margin
- Protracted slowdown in key end-user industry verticals
- Increased competitive intensity from pan-India players

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	10,238	10,320	9,427	11,788	13,720
EBITDA	1,190	1,213	1,070	1,591	1,907
Depreciation	65	78	88	108	126
EBIT	1,125	1,135	983	1,484	1,780
Net interest income/(expenses)	(38)	(9)	(4)	(3)	(3)
Other income/(expenses)	32	44	66	74	93
Exceptional items	0	0	0	0	0
EBT	1,119	1,170	1,044	1,555	1,871
Income taxes	390	279	263	389	468
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	728	891	781	1,166	1,404
Adjustments	0	0	0	0	0
Adjusted net profit	728	891	781	1,166	1,404

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	724	620	594	807	940
Other current liabilities	200	195	178	222	259
Provisions	41	47	43	53	62
Debt funds	98	39	28	19	19
Other liabilities	0	1	1	1	0
Equity capital	77	77	77	77	77
Reserves & surplus	2,595	3,296	3,921	4,854	5,976
Shareholders' fund	2,672	3,373	3,997	4,930	6,053
Total liabilities and equities	3,735	4,274	4,842	6,034	7,333
Cash and cash eq.	171	412	370	467	727
Accounts receivables	1,631	1,658	1,679	1,938	2,255
Inventories	0	0	0	0	0
Other current assets	128	152	139	174	202
Investments	13	9	9	9	9
Net fixed assets	1,716	1,833	2,556	3,348	4,021
CWIP	14	111	0	0	0
Intangible assets	15	22	22	22	22
Deferred tax assets, net	(55)	(41)	(41)	(41)	(41)
Other assets	102	119	109	118	137
Total assets	3,735	4,274	4,842	6,034	7,333

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	794	969	869	1,274	1,530
Interest expenses	38	9	4	3	3
Non-cash adjustments	12	(14)	0	0	0
Changes in working capital	(122)	(171)	(44)	(34)	(188)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	722	793	829	1,243	1,345
Capital expenditures	(189)	(299)	(700)	(900)	(800)
Change in investments	(13)	4	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(202)	(295)	(700)	(900)	(800)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(308)	(59)	(11)	(9)	0
Interest expenses	(38)	(9)	(4)	(3)	(3)
Dividends paid	(134)	(180)	(156)	(233)	(281)
Other financing cash flows	9	(10)	0	0	0
Cash flow from financing	(471)	(258)	(171)	(246)	(283)
Changes in cash and cash eq.	49	240	(42)	97	261
Closing cash and cash eq.	171	412	370	467	727

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	23.2	20.4	30.4	36.6
Adjusted EPS	19.0	23.2	20.4	30.4	36.6
Dividend per share	2.9	4.7	4.1	6.1	7.3
Book value per share	69.8	87.9	104.2	128.6	157.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.7	2.7	2.9	2.3	2.0
EV/EBITDA	23.6	23.0	25.8	17.3	14.4
Adjusted P/E	38.2	31.3	35.7	23.9	19.9
P/BV	10.4	8.3	7.0	5.7	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.1	76.1	74.8	75.0	75.0
Interest burden (PBT/EBIT)	99.5	103.1	106.3	104.8	105.1
EBIT margin (EBIT/Revenue)	11.0	11.0	10.4	12.6	13.0
Asset turnover (Revenue/Avg TA)	3.8	3.3	2.5	2.6	2.5
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	30.7	29.5	21.2	26.1	25.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	15.7	0.8	(8.7)	25.0	16.4
EBITDA	31.3	1.9	(11.8)	48.7	19.8
Adjusted EPS	24.7	22.3	(12.3)	49.3	20.4
Profitability & Return ratios (%)					
EBITDA margin	11.6	11.8	11.4	13.5	13.9
EBIT margin	11.0	11.0	10.4	12.6	13.0
Adjusted profit margin	7.1	8.6	8.3	9.9	10.2
Adjusted ROAE	30.7	29.5	21.2	26.1	25.6
ROCE	42.1	36.2	26.1	32.8	32.1
Working capital days (days)					
Receivables	58	59	65	60	60
Inventory	0	0	0	0	0
Payables	29	25	26	29	29
Ratios (x)					
Gross asset turnover	5.5	5.1	3.8	3.5	3.3
Current ratio	2.0	2.6	2.7	2.4	2.5
Net interest coverage ratio	29.8	126.1	222.4	477.2	712.1
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

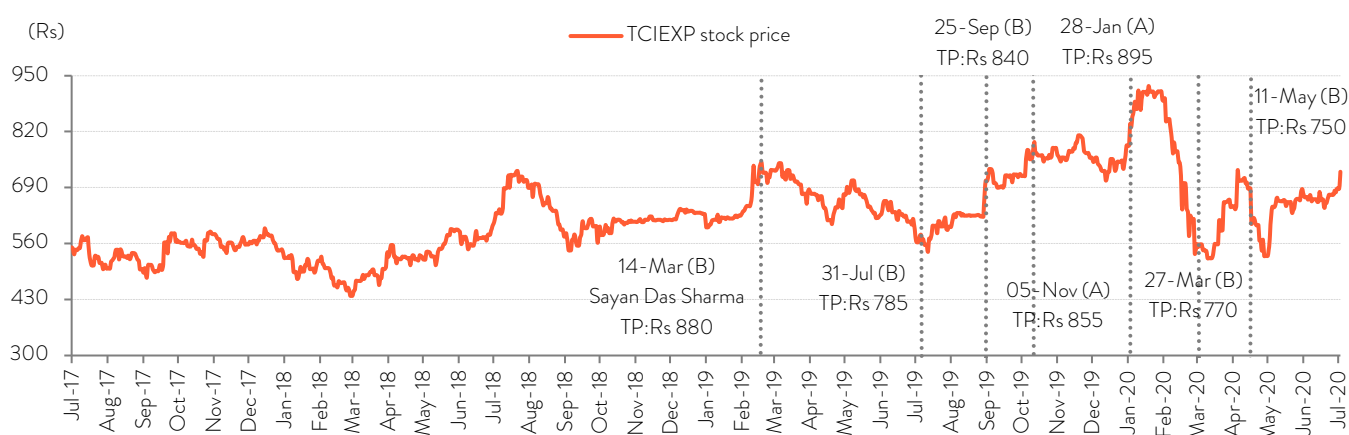
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): TCI EXPRESS (TCIEXP IN)



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

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