

**ADD**

TP: Rs 895 | ▲ 8%

**TCI EXPRESS**

| Logistics

| 28 January 2020

## Growth lacklustre but margin beat yields in-line EBITDA

**TCI Express (TCIEXP)** reported an in-line operating performance in Q3FY20 as solid gross margin expansion (+310bps YoY) compensated for muted topline growth (+2%). PAT grew at a strong 36% YoY boosted by lower tax rates. While growth remains tepid in a tough demand climate, management's proactive steps towards cost control, branch expansion and SME client addition augur well for long-term prospects. We continue to like TCIEXP but believe the recent rally caps near-term upside. Maintain ADD with a revised Mar'21 TP of Rs 895 (vs. Rs 855).

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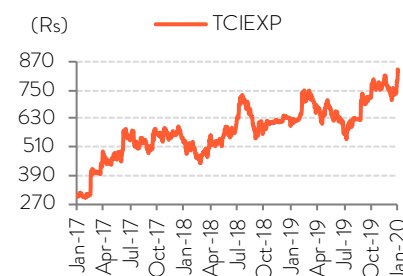
**Volume growth decelerates:** Marred by weak industrial activity and disruptions in eastern/northeastern states (~15% share), TCIEXP's tonnage growth decelerated to +1% YoY (vs. 7% in Q2). Realisations grew a meagre 1% YoY. SME client addition helped contain the slowdown in volumes and realisations, while large corporate accounts remained tepid. The company is focusing on branch expansion and pursuing prospective clients to combat the slowdown.

Ticker/Price	TCIEXP IN/Rs 831
Market cap	US\$ 446.3mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 867/Rs 531
Promoter/FPI/DII	67%/4%/6%

Source: NSE

**Margin juggernaut continues:** TCIEXP's gross margin continued to expand (+310bps YoY), as it managed to carry higher volumes using fewer trucks – this was made possible by (1) increasing axle load in some hired vehicles (~40% of total fleet), and (2) use of higher tonnage trucks on some routes (truck hire cost is a direct expense). Consequently, EBITDA margin expanded 100bps YoY to 12.8%, yielding in-line EBITDA of Rs 343mn (+10.8% YoY).

## STOCK PERFORMANCE



Source: NSE

**FY20 guidance lowered:** Management has lowered FY20 topline guidance to 8-8.5% from 13-14% earlier (implied growth of ~17% in Q4), given the tepid 9MFY20. We bake in lower 10%/6% YoY growth for Q4FY20/FY20.

**Maintain ADD:** We raise FY20-FY22 EPS estimates slightly (0.2-1.5%) and move to a revised Mar'21 TP of Rs 895 from Rs 855, set at 24x P/E (from 23x).

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	8,851	10,238	10,860	12,690	14,901
EBITDA (Rs mn)	907	1,190	1,321	1,621	1,994
Adj. net profit (Rs mn)	584	728	956	1,162	1,426
Adj. EPS (Rs)	15.3	19.0	25.0	30.3	37.2
Adj. EPS growth (%)	55.8	24.7	31.3	21.6	22.6
Adj. ROAE (%)	31.8	30.7	31.3	29.8	28.9
Adj. P/E (x)	54.5	43.7	33.3	27.4	22.3
EV/EBITDA (x)	35.4	27.0	24.2	19.5	15.8

Source: Company, BOBCAPS Research

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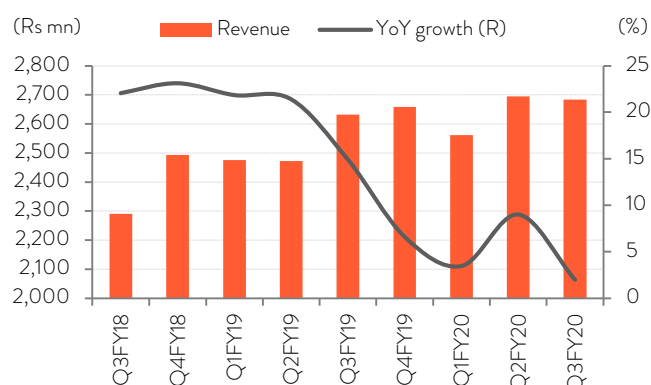


**FIG 1 – QUARTERLY PERFORMANCE**

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Total revenues</b>	<b>2,684</b>	<b>2,632</b>	<b>2.0</b>	<b>2,695</b>	<b>(0.4)</b>	<b>7,940</b>	<b>7,579</b>	<b>4.8</b>
Operating expenses	1,896	1,941	(2.3)	1,928	(1.7)	5,677	5,640	0.6
% of sales	70.6	73.8	(313bps)	71.6	(92bps)	71.5	74.4	(292bps)
Employee expenses	251	211	19.2	263	(4.5)	768	635	20.9
% of sales	9.4	8.0	135bps	9.8	(40bps)	9.7	8.4	129bps
Other expenses	194	170	14.0	196	(1.3)	550	452	21.6
% of sales	7.2	6.4	76bps	7.3	(6bps)	6.9	6.0	96bps
Total expenditure	2,341	2,322	0.8	2,388	(2.0)	6,994	6,727	4.0
<b>EBITDA</b>	<b>343</b>	<b>310</b>	<b>10.8</b>	<b>307</b>	<b>11.7</b>	<b>946</b>	<b>852</b>	<b>11.0</b>
EBITDA margin (%)	12.8	11.8	101bps	11.4	138bps	11.9	11.2	67bps
Depreciation	21	17	26.0	18	15.8	57	48	18.4
<b>EBIT</b>	<b>322</b>	<b>293</b>	<b>9.9</b>	<b>289</b>	<b>11.4</b>	<b>889</b>	<b>804</b>	<b>10.6</b>
Interest expenses	2	10	(85.4)	3	(40.0)	6	33	(80.9)
Other income	9	7	30.3	16	(46.6)	32	20	61.6
<b>PBT</b>	<b>329</b>	<b>289</b>	<b>13.7</b>	<b>302</b>	<b>8.8</b>	<b>914</b>	<b>790</b>	<b>15.7</b>
PBT margin (%)	12.3	11.0	127bps	11.2	103bps	11.5	10.4	109bps
Extraordinary income/(expense)	-	-	NM	-	NM	-	-	NM
Income tax	74	102	(27.9)	41	78.0	214	280	(23.4)
Tax rate (%)	22.4	35.2	(1,289bps)	13.7	869bps	23.4	35.4	(1,195bps)
<b>Reported PAT</b>	<b>255</b>	<b>187</b>	<b>36.4</b>	<b>261</b>	<b>(2.2)</b>	<b>700</b>	<b>511</b>	<b>37.1</b>
Adjustment	-	-	NM	-	NM	-	-	NM
<b>Adjusted PAT</b>	<b>255</b>	<b>187</b>	<b>36.4</b>	<b>261</b>	<b>(2.2)</b>	<b>700</b>	<b>511</b>	<b>37.1</b>
Adjusted PAT margin (%)	9.5	7.1	240bps	9.7	(17bps)	8.8	6.7	208bps
<b>Adjusted EPS</b>	<b>6.7</b>	<b>4.9</b>	<b>36.4</b>	<b>6.8</b>	<b>(2.2)</b>	<b>18.3</b>	<b>13.3</b>	<b>37.1</b>

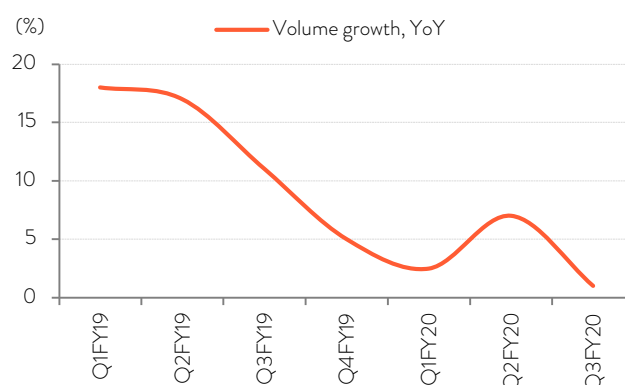
Source: Company, BOBCAPS Research

**FIG 2 – TOPLINE GROWTH WAS MUTED AT 2% YOY...**



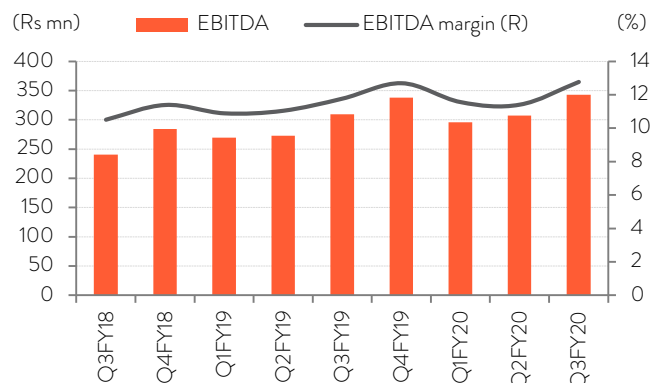
Source: Company, BOBCAPS Research

**FIG 3 – ...LED BY TEPID VOLUME GROWTH**



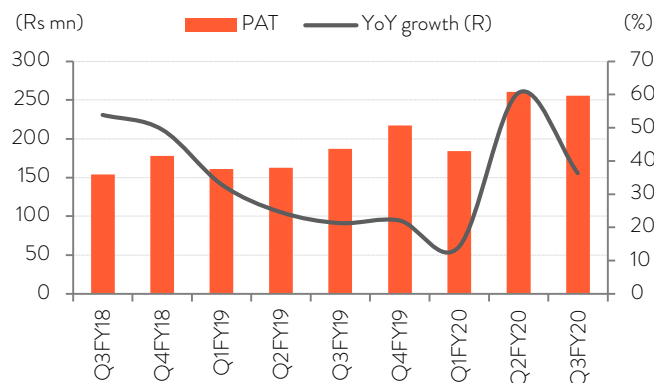
Source: Company, BOBCAPS Research

**FIG 4 – LOWER OPERATING EXPENSES CATALYSED ~100BPS YOY EXPANSION IN EBITDA MARGIN**



Source: Company, BOBCAPS Research

**FIG 5 – LOWER TAX RATES BOOSTED PAT GROWTH TO 36% YOY**



Source: Company, BOBCAPS Research

### Earnings call takeaways

- The demand slowdown stemming from weak industrial activity was compounded by regional disruptions in Q3. In particular, political unrest in East/Northeast India affected operations. These states account for ~15% of total volumes in origination terms but have a larger share in total delivery.
- Management has lowered FY20 topline guidance to 8-8.5% from 13-14% earlier. Growth in Jan'20 was marginally better than Dec'19 but still below management's expectations. TCIEXP expects growth to tick up in February-March.
- Management mentioned that some SME clients may have temporarily migrated to unorganised express players amidst the slowdown. However, it does not see competitive threats intensifying in general and is confident of growing faster than competition going ahead as well.
- The company has opened 57 branches in FY20 YTD, taking the total count to 800+. Plans are underway to open another 15-20 branches in Q4FY20.
- The two new sorting centres in Gurgaon and Pune are expected to start operations from Q2FY21. Approvals have also come through for two more sorting centres at Indore and Nagpur; construction is to start in Q1FY21.
- Capex totalled Rs 230mn in 9MFY20 with Rs 250mn-300mn planned for Q4 (vs. guidance of Rs 800mn in FY20). FY21/FY22 capex is pegged at Rs 800mn-1,000mn.
- International air express remains a focus area and management expects this business will scale up to 3-4% of the total topline from ~1% at present.

## Valuation methodology

We largely maintain FY21/FY22 earnings estimates and raise our FY20 estimate by 1.5% to factor in a below-estimated tax rate. Encouraged by the decent operating performance despite tough externalities, we raise our P/E multiple to 24x from 23x and revise our Mar'21 target price to Rs 895 vs. Rs 855 earlier.

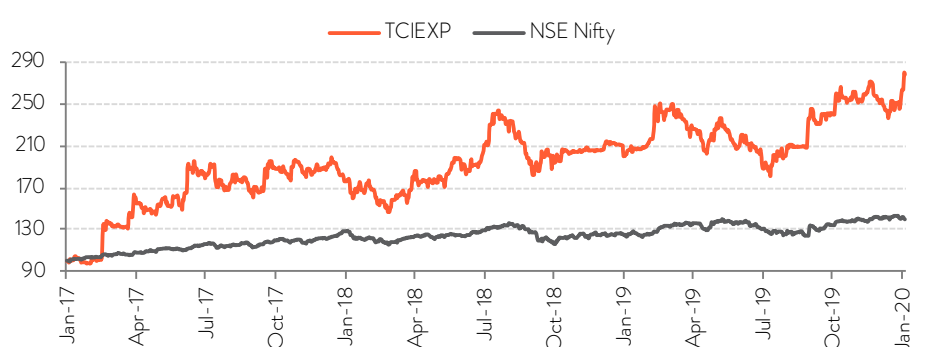
We remain constructive on TCIEXP's long-term prospects and expect the company to benefit from (1) multiple structural industry tailwinds – rising share of surface express over air express, shift in customer preference towards pan-India express players; (2) focus on the fast growing surface express and B2B segments; and (3) a wide geographic reach – ~95% of all pin codes in India, 40,000+ pickup and delivery locations. However, the stock has rallied in recent months without meaningful improvement in growth outlook. We see limited upside in the near-term till signs of sustainable growth recovery are visible and hence reiterate our ADD rating.

**FIG 6 – REVISED ESTIMATES**

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	11,174	10,860	(2.8)	13,056	12,690	(2.8)	15,331	14,901	(2.8)
EBITDA	1,320	1,321	0.0	1,616	1,621	0.3	1,993	1,994	0.1
EBITDA margin (%)	11.8	12.2	34bps	12.4	12.8	39bps	13.0	13.4	38bps
PAT	942	956	1.5	1,155	1,162	0.7	1,423	1,426	0.2
PAT margin (%)	8.4	8.8	37bps	8.8	9.2	31bps	9.3	9.6	28bps

Source: Company, BOBCAPS Research

**FIG 7 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- ROCE dilution after transitioning to owned sorting centres if revenue and cost benefits are lower than expected
- Prolonged slowdown in key end-user industry verticals
- Increased competitive intensity from pan-India players

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>8,851</b>	<b>10,238</b>	<b>10,860</b>	<b>12,690</b>	<b>14,901</b>
EBITDA	907	1,190	1,321	1,621	1,994
Depreciation	52	65	78	118	154
EBIT	854	1,125	1,243	1,502	1,840
Net interest income/(expenses)	(38)	(38)	(7)	0	0
Other income/(expenses)	21	32	43	60	76
Exceptional items	0	0	0	0	0
EBT	838	1,119	1,278	1,562	1,916
Income taxes	254	390	322	400	491
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>584</b>	<b>728</b>	<b>956</b>	<b>1,162</b>	<b>1,426</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>584</b>	<b>728</b>	<b>956</b>	<b>1,162</b>	<b>1,426</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	646	724	893	1,043	1,225
Other current liabilities	240	200	212	248	291
Provisions	35	41	44	51	60
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	3,360	4,290	5,431
Shareholders' fund	2,068	2,672	3,437	4,367	5,507
<b>Total liabilities and equities</b>	<b>3,395</b>	<b>3,735</b>	<b>4,585</b>	<b>5,708</b>	<b>7,082</b>
Cash and cash eq.	122	171	381	381	596
Accounts receivables	1,544	1,631	1,785	2,086	2,449
Inventories	0	0	0	0	0
Other current assets	101	128	136	159	186
Investments	0	13	13	13	13
Net fixed assets	1,602	1,716	2,201	2,983	3,729
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	108	127	149
<b>Total assets</b>	<b>3,395</b>	<b>3,735</b>	<b>4,585</b>	<b>5,708</b>	<b>7,082</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	636	794	1,034	1,281	1,580
Interest expenses	38	38	7	0	0
Non-cash adjustments	9	12	0	0	0
Changes in working capital	44	(122)	16	(149)	(179)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>727</b>	<b>722</b>	<b>1,057</b>	<b>1,132</b>	<b>1,401</b>
Capital expenditures	(622)	(189)	(550)	(900)	(900)
Change in investments	0	(13)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(622)</b>	<b>(202)</b>	<b>(550)</b>	<b>(900)</b>	<b>(900)</b>
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)	(191)	(232)	(285)
Other financing cash flows	5	10	0	0	0
<b>Cash flow from financing</b>	<b>(71)</b>	<b>(471)</b>	<b>(297)</b>	<b>(232)</b>	<b>(285)</b>
<b>Changes in cash and cash eq.</b>	<b>34</b>	<b>49</b>	<b>210</b>	<b>0</b>	<b>215</b>
<b>Closing cash and cash eq.</b>	<b>122</b>	<b>171</b>	<b>381</b>	<b>381</b>	<b>596</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	15.3	19.0	25.0	30.3	37.2
Adjusted EPS	15.3	19.0	25.0	30.3	37.2
Dividend per share	2.8	3.0	5.0	6.1	7.4
Book value per share	54.0	69.8	89.7	114.0	143.8

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.6	3.1	2.9	2.5	2.1
EV/EBITDA	35.4	27.0	24.2	19.5	15.8
Adjusted P/E	54.5	43.7	33.3	27.4	22.3
P/BV	15.4	11.9	9.3	7.3	5.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	69.7	65.1	74.8	74.4	74.4
Interest burden (PBT/EBIT)	98.0	99.5	102.9	104.0	104.1
EBIT margin (EBIT/Revenue)	9.7	11.0	11.4	11.8	12.3
Asset turnover (Revenue/Avg TA)	4.0	3.8	3.4	3.2	3.0
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.0	1.0	1.0
Adjusted ROAE	31.8	30.7	31.3	29.8	28.9

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	18.0	15.7	6.1	16.9	17.4
EBITDA	46.5	31.3	11.0	22.7	23.1
Adjusted EPS	55.8	24.7	31.3	21.6	22.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.2	11.6	12.2	12.8	13.4
EBIT margin	9.7	11.0	11.4	11.8	12.3
Adjusted profit margin	6.6	7.1	8.8	9.2	9.6
Adjusted ROAE	31.8	30.7	31.3	29.8	28.9
ROCE	38.2	42.1	39.3	38.0	36.9
<b>Working capital days (days)</b>					
Receivables	64	58	60	60	60
Inventory	0	0	0	0	0
Payables	30	29	34	34	35
<b>Ratios (x)</b>					
Gross asset turnover	6.1	5.5	4.9	4.3	3.9
Current ratio	1.9	2.0	2.0	2.0	2.1
Net interest coverage ratio	22.7	29.8	168.7	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%

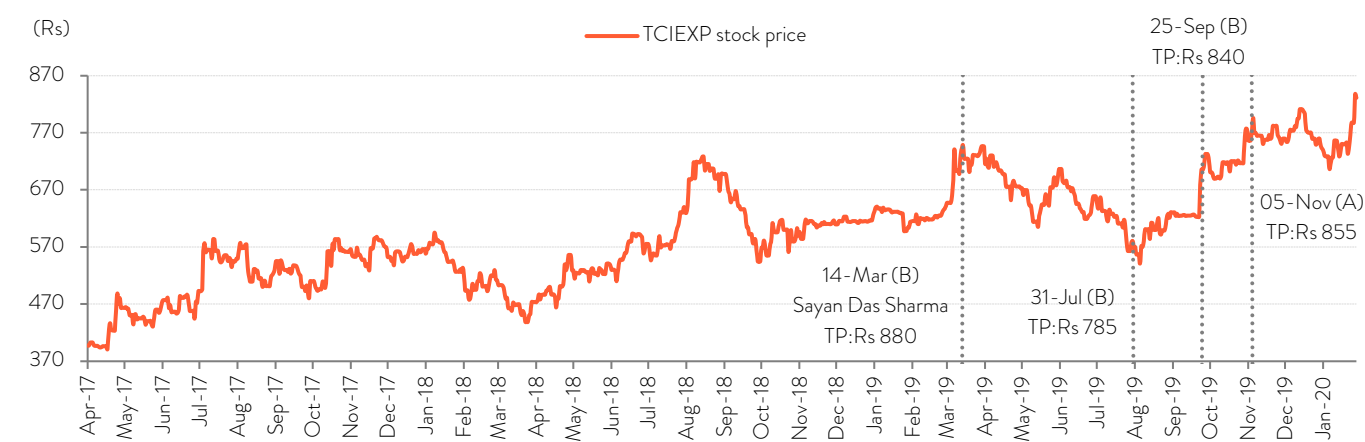
**ADD** – Expected return from >+5% to +15%

**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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