

BUY

TP: Rs 1,165 | ▲ 21%

TCI EXPRESS

Logistics

10 February 2021

Operating excellence continues to offset volume weakness

TCI Express's (TCIEXP) Q3FY21 revenue missed estimates (-2% YoY vs. +5% est.) but strong EBITDA margin gains (+450bps YoY) yielded a solid earnings beat (+32% YoY vs. +9% est.). Continued margin traction is a testament to the robust asset-light model. Volume recovery is likely from Q4 aided by pickup in economic activity and a soft base – this coupled with resilient margins should fuel earnings. Given an improving outlook, we raise FY21-FY23 PAT by 8-15%, hike our target P/E to 30x (vs. 27x) and roll to a new Mar'22 TP of Rs 1,165 (vs. Rs 930).

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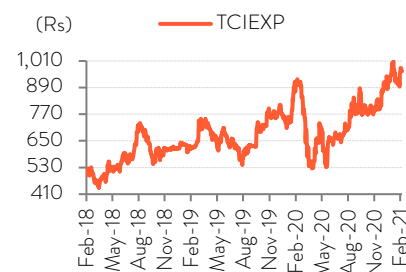
Weak tonnage drags down topline: Revenue declined 2% YoY due to lower tonnage (-4%) while realisation ticked up 2%. Lower tonnage stemmed from uneven demand recovery, per management, as the festive-season uptick seen in October was nullified by a sedate November. Growth in January has been flat followed by improvement this month. Some key industry verticals such as textiles are yet to revive, whereas machine tools, auto parts and pharma supported Q3 volumes. We believe volume revival is imminent from Q4 aided by increased manufacturing activity, branch network expansion and a soft base.

Ticker/Price	TCIEXP IN/Rs 962
Market cap	US\$ 506.2mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 1,024/Rs 456
Promoter/FPI/DII	67%/2%/10%

Source: NSE

Margin juggernaut rolls on: TCIEXP has posted YoY gross margin expansion every quarter since FY18 – an impressive feat. Q3 gross margin expanded 300bps YoY bolstered by better truck utilisation and operation efficiencies (such as expansion of container dimensions). EBITDA margin expanded by 450bps YoY to highest ever levels of 17.3%, also aided by lower staff costs (-7.5%) and other expenses (-16%). Staff cost may climb 2-3% higher than FY20, but TCIEXP aims to achieve a further 1% expansion in gross margins.

STOCK PERFORMANCE



Source: NSE

TP raised: Baking in the earnings beat, we raise FY21/FY22/FY23 PAT estimates by 15%/8%/8%. We also increase our target P/E to 30x (vs. 27x) given easing headwinds. On rollover, we revise our Mar'22 TP to Rs 1,165 (vs. Rs 930).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,238	10,320	8,503	10,773	12,539
EBITDA (Rs mn)	1,190	1,213	1,226	1,689	2,021
Adj. net profit (Rs mn)	728	891	892	1,243	1,489
Adj. EPS (Rs)	19.0	23.2	23.3	32.4	38.8
Adj. EPS growth (%)	24.7	22.3	0.2	39.3	19.8
Adj. ROAE (%)	30.7	29.5	23.6	26.6	25.8
Adj. P/E (x)	50.6	41.4	41.4	29.7	24.8
EV/EBITDA (x)	31.2	30.5	29.9	21.5	17.9

Source: Company, BOBCAPS Research

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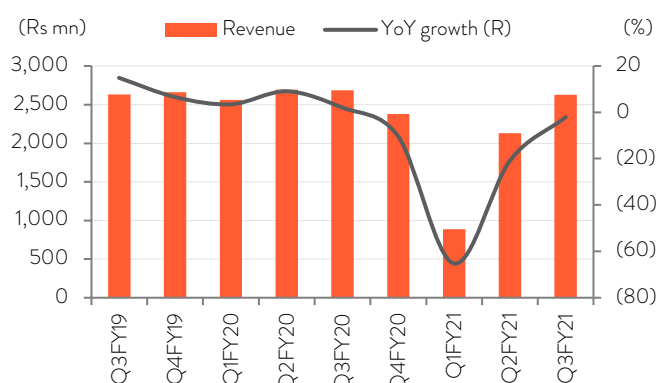


FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Total revenues	2,625	2,684	(2.2)	2,130	23.3	5,642	7,940	(28.9)
Operating expenses	1,776	1,896	(6.3)	1,444	23.0	3,799	5,677	(33.1)
% of sales	67.7	70.6	(299bps)	67.8	(17bps)	67.3	71.5	(416bps)
Employee expenses	233	251	(7.5)	221	5.4	640	768	(16.6)
% of sales	8.9	9.4	(51bps)	10.4	(150bps)	11.3	9.7	168bps
Other expenses	163	194	(15.7)	139	17.4	404	549	(26.5)
% of sales	6.2	7.2	(100bps)	6.5	(31bps)	7.2	6.9	23bps
Total expenditure	2,172	2,341	(7.2)	1,804	20.4	4,843	6,994	(30.8)
EBITDA	453	343	32.2	326	39.3	799	946	(15.5)
EBITDA margin (%)	17.3	12.8	449bps	15.3	198bps	14.2	11.9	225bps
Depreciation	22	21	1.9	22	-	65	57	12.8
EBIT	432	322	34.2	304	42.1	735	889	(17.3)
Interest expenses	2	2	6.7	3	(48.4)	6	6	(4.8)
Other income	17	9	93.0	15	13.7	46	32	43.4
PBT	447	329	35.9	315	41.6	775	915	(15.3)
PBT margin (%)	17.0	12.3	477bps	14.8	221bps	13.7	11.5	221bps
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	111	74	50.5	81	37.4	195	214	(9.1)
Tax rate (%)	24.8	22.4	241bps	25.5	(76bps)	25.1	23.4	171bps
Reported PAT	336	255	31.6	235	43.1	580	700	(17.2)
Adjustment	-	-	-	-	-	-	-	-
Adjusted PAT	336	255	31.6	235	43.1	580	700	(17.2)
Adjusted PAT margin (%)	12.8	9.5	329bps	11.0	177bps	10.3	8.8	146bps
Adjusted EPS	8.8	6.7	31.6	6.1	43.1	15.1	18.3	(17.2)

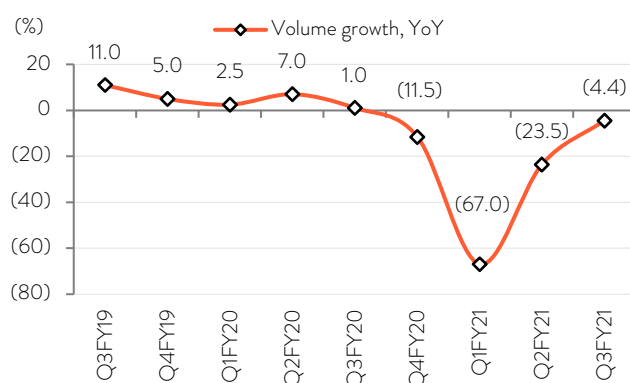
Source: Company, BOBCAPS Research

FIG 2 – REVENUE DECLINE EASED TO 2% YOY

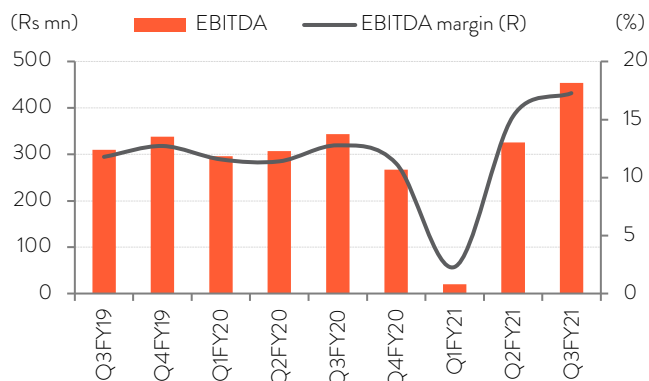


Source: Company, BOBCAPS Research

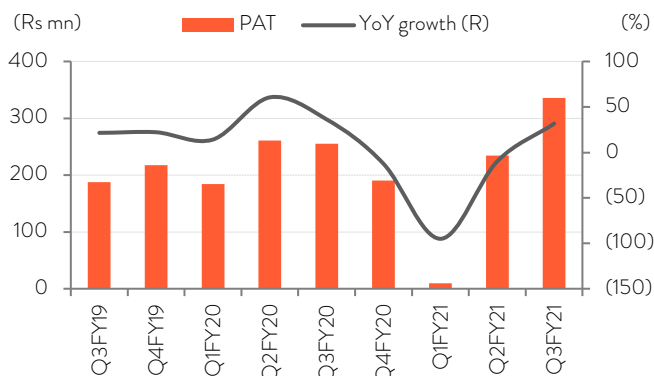
FIG 3 – TONNAGE DECLINED BY 4% YOY



Source: Company, BOBCAPS Research

FIG 4 – EBITDA MARGIN SCALED NEW HIGHS OF 17.3%, EBITDA ROSE 32.2% YOY


Source: Company, BOBCAPS Research

FIG 5 – PAT INCREASED 31.6% YOY


Source: Company, BOBCAPS Research

Earnings call takeaways

- Q3FY21 tonnage contracted 4% YoY to 215k tonnes (up 20% QoQ), with a ~2% increase in realisation. Tonnage in the same quarter last year was ~225k tonnes.
- October witnessed strong festive-led demand which tapered off sequentially in November. Demand has been flattish in January followed by robust traction in February so far.
- Some industry verticals – machinery tools, pharma, auto parts – led volumes in Q3. Textiles, a key end-user vertical, is yet to recover fully and was a drag on volumes during the last quarter.
- The SME client segment's contribution stood at 52% in value terms and the corporate segment accounted for the balance 48%. SME share in volume terms would be lower due to higher realisation per tonne from these clients. TCIEXP intends to maintain its focus on SME clients.
- Air express revenue contribution held steady at 8%. The e-commerce segment accounted for 4%.
- Branch network is planned to be doubled over the next 3-4 years across tier-I and tier-II cities – this will act as a critical revenue driver.
- The company has recently received government approval to expand the dimensions of containers. As at end-Q3, container dimensions have been increased for 47% of total hired trucks, up from 45% in Q2. This has enabled TCIEXP to carry higher loads per truck, permitted as per the new axle load norms, aiding gross margin expansion.
- Truck-fill factor increased marginally to 86% from 85% in Q3FY20.

- Higher truck capacity, better utilisation and close monitoring of operating aspects to reduce costs have yielded gross margin expansion. The company plans to enhance gross margin by a further 1% in FY22 to ~33% and eventually to 35% in a few years.
- While operating cost savings are sustainable, staff costs are likely to go up in FY22 as the company intends to reward employees with higher salaries. FY22 staff costs could be 2-3% higher than FY20.
- TCIEXP has incurred capex of Rs 410mn in 9MFY21 towards the construction of two new sorting centres in Pune and Gurgaon. Construction of the Pune sorting centre is completed and regulatory approvals are awaited. Operations should commence in Q4. The Gurgaon facility should start operations by Q1FY22. Another ~Rs 700mn of capex is planned on automation across these two facilities.
- Out of the company's Rs 4bn capex plan - announced in FY18, to be incurred over the subsequent five years - ~Rs 2.4bn is still pending and is expected to be incurred over the next couple of years. Apart from the two sorting centres mentioned above, permissions are awaited for construction at Indore, Chennai and Nagpur. Management is also looking for suitable land parcels in Kolkata and Mumbai.
- TCIEXP expects the new sorting centres to help improve throughput, raise customer service levels and reduce turnaround time, apart from yielding operating cost savings. Consequently, it believes ROCE will be maintained even after the full capex has been incurred.
- Cash generation remained strong at Rs 850mn in 9MFY21.

Valuation methodology

We prune our FY21/FY22/FY23 revenue estimates by 2%/1%/1% to bake in the below-expected volume ramp-up so far. However, given the consistent EBITDA outperformance, we raise our margin forecasts by 200bps/140bps/140bps and hence, our earnings estimates increase by 15%/8%/8%.

With steadily improving economic activity, we expect TCIEXP's volume growth to bounce back from Q4FY21 onwards, also augmented by a low base. Given an improving demand outlook and higher-than-estimated, sustainable operational gains achieved by the company, we raise our target P/E multiple to 30x from 27x earlier. On rolling valuations forward, we revise our Mar'22 target price to Rs 1,165 vs. Rs 930 earlier. Maintain BUY.

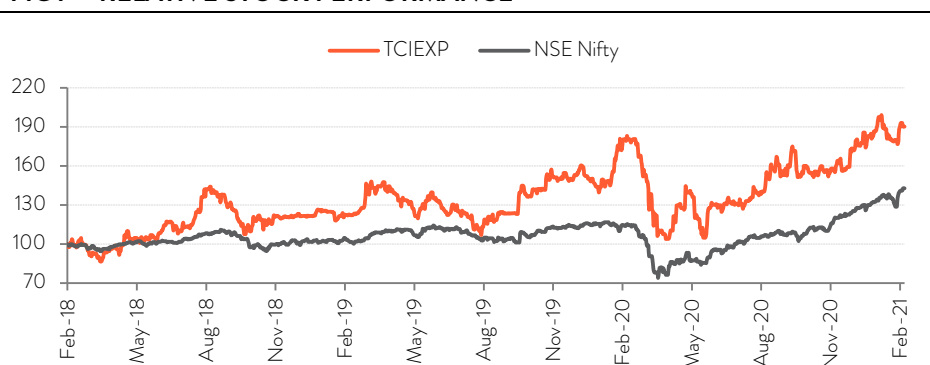
Notwithstanding severe external challenges on the demand front, TCIEXP has posted a strong operating performance in 9MFY21, which is a testament to its superior asset-light business model. We remain positive on the company's long-term prospects and also expect it to benefit from (1) multiple long-term 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.

FIG 6 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	8,716	8,503	(2.4)	10,899	10,773	(1.2)	12,685	12,539	(1.2)
EBITDA	1,072	1,226	14.4	1,553	1,689	8.7	1,863	2,021	8.5
EBITDA margin (%)	12.3	14.4	212bps	14.2	15.7	143bps	14.7	16.1	143bps
PAT	777	892	14.8	1,150	1,243	8.1	1,380	1,489	7.9
EPS (Rs)	20.3	23.3	14.8	30.0	32.4	8.1	36.0	38.8	7.9

Source: Company, BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- lingering impact of Covid-19 pandemic on economic activity,
- sharp decline in utilisation levels due to lower volumes and corresponding dilution in gross margin,
- protracted slowdown in key end-user industry verticals, and
- increased competitive intensity from new entrants in the B2B express industry.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	10,238	10,320	8,503	10,773	12,539
EBITDA	1,190	1,213	1,226	1,689	2,021
Depreciation	65	78	88	108	128
EBIT	1,125	1,135	1,138	1,581	1,893
Net interest income/(expenses)	(38)	(9)	(7)	(2)	0
Other income/(expenses)	32	44	66	79	92
Exceptional items	0	0	0	0	0
EBT	1,119	1,170	1,198	1,658	1,985
Income taxes	390	279	305	414	496
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	728	891	892	1,243	1,489
Adjustments	0	0	0	0	0
Adjusted net profit	728	891	892	1,243	1,489

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	724	620	536	738	859
Other current liabilities	200	195	160	203	236
Provisions	41	47	39	49	57
Debt funds	98	39	28	0	0
Other liabilities	0	1	1	1	0
Equity capital	77	77	77	77	77
Reserves & surplus	2,595	3,296	4,099	5,094	6,285
Shareholders' fund	2,672	3,373	4,176	5,170	6,362
Total liabilities and equities	3,735	4,274	4,940	6,161	7,514
Cash and cash eq.	171	412	657	770	1,013
Accounts receivables	1,631	1,658	1,514	1,771	2,061
Inventories	0	0	0	0	0
Other current assets	128	152	125	159	185
Investments	13	9	9	9	9
Net fixed assets	1,716	1,833	2,556	3,348	4,120
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	98	125	145
Total assets	3,735	4,274	4,940	6,161	7,514

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	794	969	980	1,351	1,617
Interest expenses	38	9	7	2	0
Non-cash adjustments	12	(14)	0	0	0
Changes in working capital	(122)	(171)	65	(61)	(174)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	722	793	1,052	1,292	1,443
Capital expenditures	(189)	(299)	(700)	(900)	(900)
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)	(900)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(308)	(59)	(11)	(28)	0
Interest expenses	(38)	(9)	(7)	(2)	0
Dividends paid	(134)	(180)	(89)	(249)	(298)
Other financing cash flows	9	(10)	0	0	0
Cash flow from financing	(471)	(258)	(107)	(279)	(298)
Changes in cash and cash eq.	49	240	245	113	245
Closing cash and cash eq.	171	412	657	770	1,013

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	23.2	23.3	32.4	38.8
Adjusted EPS	19.0	23.2	23.3	32.4	38.8
Dividend per share	2.9	4.7	2.3	6.5	7.8
Book value per share	69.8	87.9	108.9	134.8	165.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.6	3.6	4.3	3.4	2.9
EV/EBITDA	31.2	30.5	29.9	21.5	17.9
Adjusted P/E	50.6	41.4	41.4	29.7	24.8
P/BV	13.8	10.9	8.8	7.1	5.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.1	76.1	74.5	75.0	75.0
Interest burden (PBT/EBIT)	99.5	103.1	105.2	104.9	104.9
EBIT margin (EBIT/Revenue)	11.0	11.0	13.4	14.7	15.1
Asset turnover (Revenue/Avg TA)	3.8	3.3	2.2	2.3	2.2
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	30.7	29.5	23.6	26.6	25.8

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	(17.6)	26.7	16.4
EBITDA	31.3	1.9	1.1	37.7	19.7
Adjusted EPS	24.7	22.3	0.2	39.3	19.8
Profitability & Return ratios (%)					
EBITDA margin	11.6	11.8	14.4	15.7	16.1
EBIT margin	11.0	11.0	13.4	14.7	15.1
Adjusted profit margin	7.1	8.6	10.5	11.5	11.9
Adjusted ROAE	30.7	29.5	23.6	26.6	25.8
ROCE	42.1	36.2	29.6	33.4	32.6
Working capital days (days)					
Receivables	58	59	65	60	60
Inventory	0	0	0	0	0
Payables	29	25	27	30	30
Ratios (x)					
Gross asset turnover	5.5	5.1	3.4	3.2	2.9
Current ratio	2.0	2.6	3.1	2.7	2.8
Net interest coverage ratio	29.8	126.1	168.6	742.2	NM
Adjusted debt/equity	0.0	(0.1)	(0.2)	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

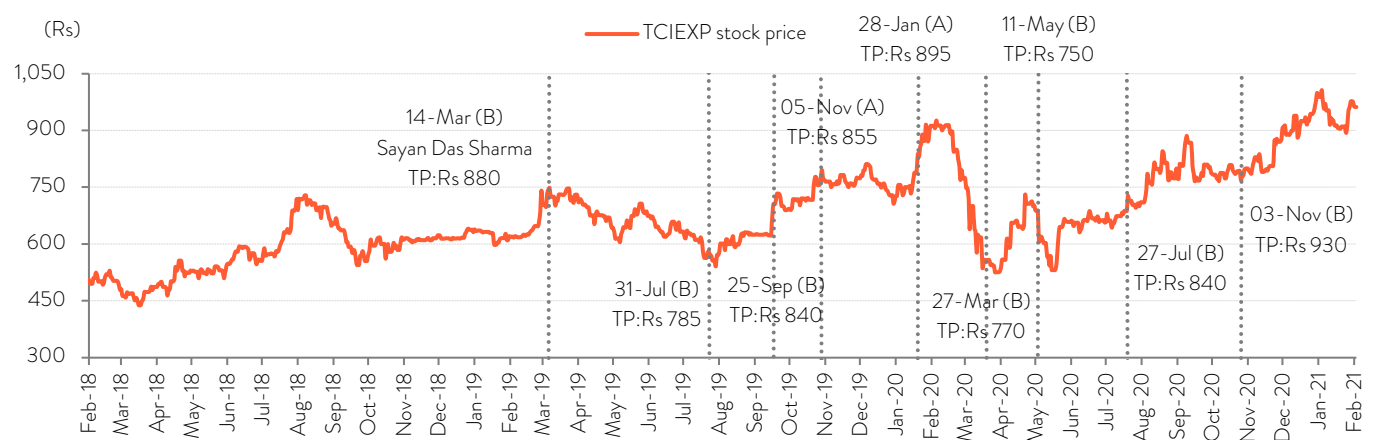
ADD – Expected return from >+5% to +15%

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)

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



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

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