

BUY

TP: Rs 750 | ▲ 24%

TCI EXPRESS

Logistics

11 May 2020

Solid fundamentals to help navigate turbulent waters

TCI Express (TCIEXP) reported a weak Q4FY20 as the economic lockdown since mid-March disrupted operations. Revenue declined 11% YoY, dented by a 12% volume drop. EBITDA margin contracted 150bps YoY to 11.2%. EBITDA fell by a sharp 21% YoY, but the decline in PAT was restricted to 13% due to a lower tax rate. We pare FY21/FY22 EPS by 9%/2% and revise our Mar'21 TP to Rs 750 (Rs 770 earlier). Though the business climate is tumultuous, we remain positive on TCIEXP's long-term prospects due to its strong fundamentals.

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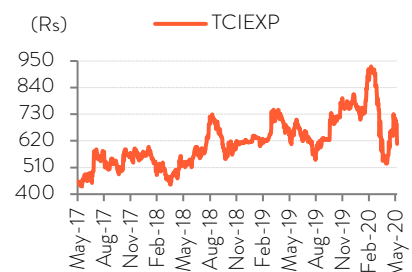
Turbulent times: Disruptions due to lockdown measures (~Rs 400mn revenue impact in March) negated decent Jan/Feb numbers (+3%/+5% YoY), driving an 11% YoY revenue decline in Q4. Though operations have resumed, volumes in Q1FY21 to date are down ~70% YoY, pointing to a depressed quarter. Per management, tonnage should inch up from June as manufacturing activity gradually revives, with sustained recovery from H2. We build in a 2% dip in FY21 topline vs. guidance of 10% growth, and expect strong recovery (+25%) in FY22.

Ticker/Price	TCIEXP IN/Rs 607
Market cap	US\$ 307.0mn
Shares o/s	38mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 949/Rs 456
Promoter/FPI/DII	67%/3%/8%

Source: NSE

Cost rationalisation to protect margin: TCIEXP has taken several measures such as travelling & stationery cost reduction and a voluntary cut in MD's salary to protect FY21 operating margins. Management is targeting savings of Rs 200mn or ~10% of Rs 1.7bn in fixed cost in FY20. Confident of retaining gross margins, the company is aiming for 100bps EBITDA margin expansion in FY21. However, we build in an 80bps dip in FY21 due to our lower-than-guided revenue estimates.

STOCK PERFORMANCE



Source: NSE

Fundamentals intact: Despite a sombre quarter, TCIEXP reported a realisation uptick (+1% YoY), higher gross margin (+126bps), steady working capital, and a net cash position (Rs 410mn), which underpins its robust fundamentals. We expect it to emerge relatively unscathed from the turmoil, by dint of its asset-light model, strong balance sheet and established moats.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	8,851	10,238	10,320	10,126	12,653
EBITDA (Rs mn)	907	1,190	1,213	1,114	1,655
Adj. net profit (Rs mn)	584	728	891	800	1,198
Adj. EPS (Rs)	15.3	19.0	23.2	20.9	31.2
Adj. EPS growth (%)	55.8	24.7	22.3	(10.2)	49.8
Adj. ROAE (%)	31.8	30.7	29.5	21.6	26.6
Adj. P/E (x)	39.8	31.9	26.1	29.1	19.4
EV/EBITDA (x)	25.9	19.7	19.2	20.7	13.8

Source: Company, BOBCAPS Research

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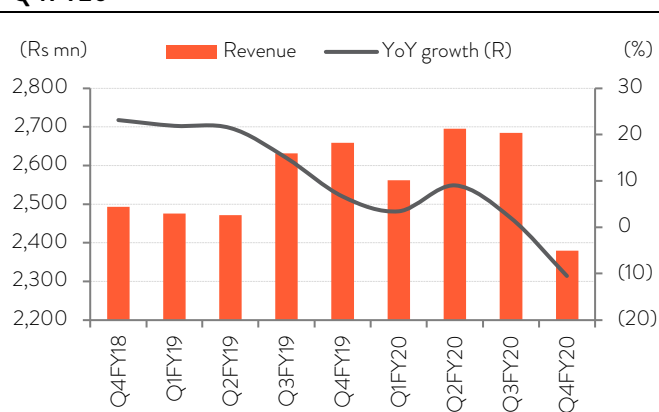


FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	2,379	2,658	(10.5)	2,684	(11.3)	10,320	10,238	0.8
Operating expenses	1,665	1,894	(12.1)	1,896	(12.2)	7,342	7,534	(2.5)
% of sales	70.0	71.2	(126bps)	70.6	(67bps)	71.1	73.6	(244bps)
Employee expenses	250	223	12.0	251	(0.6)	1,018	859	18.6
% of sales	10.5	8.4	211bps	9.4	114bps	9.9	8.4	148bps
Other expenses	198	204	(3.0)	194	2.2	747	656	13.9
% of sales	8.3	7.7	64bps	7.2	110bps	7.2	6.4	83bps
Total expenditure	2,113	2,321	(9.0)	2,341	(9.7)	9,107	9,048	0.6
EBITDA	267	338	(21.0)	343	(22.2)	1,213	1,190	1.9
EBITDA margin (%)	11.2	12.7	(149bps)	12.8	(157bps)	11.8	11.6	13bps
Depreciation	21	17	22.5	21	(2.8)	78	65	19.3
EBIT	246	321	(23.3)	322	(23.5)	1,135	1,125	0.9
Interest expenses	3	5	(43.8)	2	80.0	9	38	(76.2)
Other income	12	12	(2.5)	9	36.0	44	32	37.4
PBT	255	328	(22.2)	329	(22.4)	1,170	1,119	4.6
PBT margin (%)	10.7	12.3	(162bps)	12.3	(153bps)	11.3	10.9	41bps
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	65	111	(41.3)	74	(11.6)	279	390	(28.5)
Tax rate (%)	25.5	33.8	(829bps)	22.4	313bps	23.9	34.9	(1,104bps)
Reported PAT	190	217	(12.5)	255	(25.5)	891	728	22.3
Adjustment	-	-	-	-	-	-	-	-
Adjusted PAT	190	217	(12.5)	255	(25.5)	891	728	22.3
Adjusted PAT margin (%)	8.0	8.2	(18bps)	9.5	(152bps)	8.6	7.1	152bps
Adjusted EPS	5.0	5.7	(12.5)	6.7	(25.5)	23.3	19.0	22.3

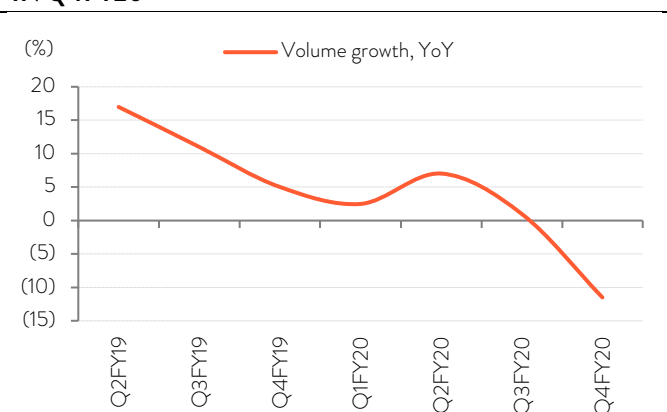
Source: Company, BOBCAPS Research

FIG 2 – REVENUE FELL SHARPLY BY 10.5% YOY IN Q4FY20



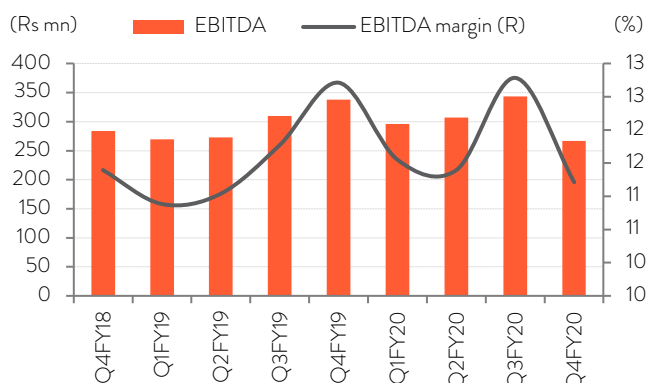
Source: Company, BOBCAPS Research

FIG 3 – VOLUME DIPPED 11.5% YOY TO 200K TONNES IN Q4FY20



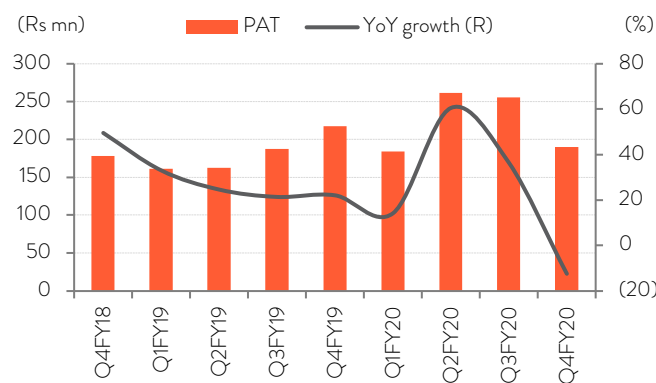
Source: Company, BOBCAPS Research

FIG 4 – EBITDA DECLINED 21%, MARGIN CONTRACTED 150BPS YOY



Source: Company, BOBCAPS Research

FIG 5 – LOWER TAX RATE RESTRICTED DECREASE IN PAT TO 12.5% YOY



Source: Company, BOBCAPS Research

Earnings call takeaways

- Q4 tonnage declined 11.5% YoY to 200k tonnes, implying a ~1% increase in realisation. FY20 tonnage was down 1.2% to 8.4mn tonnes.
- Jan-Feb witnessed revenue growth of ~3%/~5% YoY. However, operations have been severely affected since mid-March as several states announced shutdown measures to contain the spread of Covid-19, followed by a nationwide lockdown from 25 March. Revenue loss due to these restrictions were to the tune of Rs 400mn, as per management, implying 4.6% YoY topline growth in Q4 ex-Covid impact.
- Operations have resumed from 21 April onwards and revenue generation has begun. QTD volume decline is ~70% YoY (~95% in April). With a gradual resumption in manufacturing, this should ease to a ~50% YoY decline by end-May.
- Management is targeting 8-10% volume growth and a 10-12% revenue uptick in FY21. In light of the tough business climate, we bake in a revenue decline of 2% in FY21.
- In FY20, the topline was driven by the addition of SME clients. TCIEXP expects SMEs to remain the primary growth engine and hence will continue to focus on adding clients in the segment. Per management, the company works with mid-to-large SMEs whose business is relatively less disrupted than smaller MSMEs.
- SME clients are unlikely to migrate to unorganised express service providers as the latter are under severe stress. The company expects consolidation in the express logistics industry as asset-heavy players face greater difficulties.

- TCIEXP has taken several cost optimisation measures to protect profitability. The company is targeting a fixed cost saving of Rs 200mn in FY21 – stemming from lower travelling and conveyance expenses, stationery costs, and a voluntary salary cut taken by the Managing Director.
- The company has received regulatory approval for the Gurgaon and Pune sorting centres. Though construction work has been impeded by the national shutdown, management expects to commission operations at these centres from Q3FY21 onwards.
- Capex is guided at Rs 800mn in FY21 and Rs 1,000mn in FY22. However, we have in a lower Rs 500mn and Rs 900mn in FY21 and FY22 respectively owing to inadequate OCF generation.
- Debtor days remained stable at 59 days in FY20 vs. 58 days in FY19.

Valuation methodology

Since our [27 March report on TCIEXP](#), the nationwide lockdown has been extended twice, albeit with an easing of restrictions. Consequently, the company is likely to witness a steep YoY plunge in topline during Q1FY21 (volumes are down 70% QTD). Q2 is expected to be better, barring new peaks in Covid-19 incidence, as supply chain gaps are gradually filled. We factor in a sustained recovery from H2FY21 onwards buoyed by a rise in economic activity.

Thus, while we lower revenue/EBITDA/PAT estimates by 7.7%/9.8%/9.4% for FY21, our FY22 estimates see shallower cuts of 3.6%/3.6%/2.4%. This translates to a revised Mar'21 target price of Rs 750 (vs. Rs 770 earlier), set at an unchanged 24x FY22E EPS. Maintain BUY. Our estimates are contingent upon the future course the pandemic takes – a sharp rise in new cases may prompt fresh restrictions, impacting our forecasts.

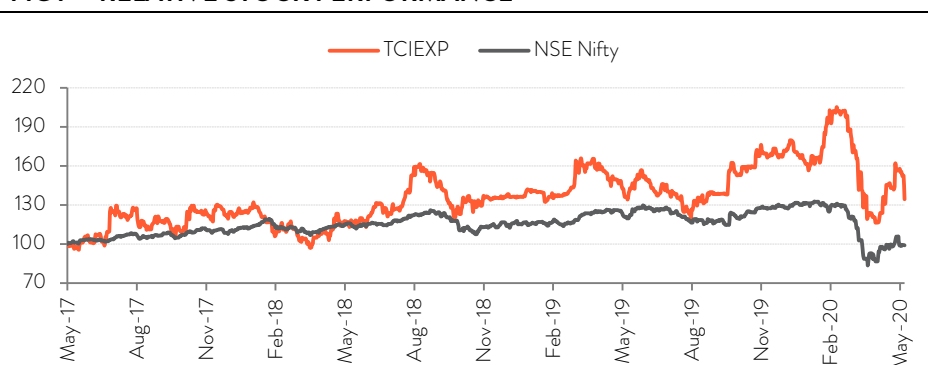
We remain constructive on TCIEXP's long-term prospects and expect the company to benefit from (1) multiple long-term structural industry tailwinds, viz. a rising share of surface express over air express and a shift in customer preference towards pan-India express players, (2) focus on the fast growing surface express and B2B segments, and (3) a wide geographic reach.

FIG 6 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	10,970	10,126	(7.7)	13,120	12,653	(3.6)
EBITDA	1,234	1,114	(9.8)	1,716	1,655	(3.6)
EBITDA margin (%)	11.3	11.0	(25bps)	13.1	13.1	0bps
PAT	882	800	(9.3)	1,226	1,198	(2.3)
PAT margin (%)	23.0	20.9	(9.4)	32.0	31.2	(2.4)

Source: Company, BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Prolonged impact of Covid-19 pandemic
- 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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	8,851	10,238	10,320	10,126	12,653
EBITDA	907	1,190	1,213	1,114	1,655
Depreciation	52	65	78	86	112
EBIT	854	1,125	1,135	1,028	1,543
Net interest income/(expenses)	(38)	(38)	(9)	(4)	(3)
Other income/(expenses)	21	32	44	45	62
Exceptional items	0	0	0	0	0
EBT	838	1,119	1,170	1,069	1,602
Income taxes	254	390	279	269	404
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	584	728	891	800	1,198
Adjustments	0	0	0	0	0
Adjusted net profit	584	728	891	800	1,198

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	646	724	620	638	867
Other current liabilities	240	200	205	201	252
Provisions	35	41	47	46	57
Debt funds	407	98	28	28	19
Other liabilities	0	0	1	1	1
Equity capital	77	77	77	77	77
Reserves & surplus	1,992	2,595	3,296	3,944	4,903
Shareholders' fund	2,068	2,672	3,373	4,021	4,979
Total liabilities and equities	3,395	3,735	4,274	4,936	6,175
Cash and cash eq.	122	171	412	519	627
Accounts receivables	1,544	1,631	1,658	1,803	2,080
Inventories	0	0	0	0	0
Other current assets	101	128	152	149	186
Investments	0	13	9	9	9
Net fixed assets	1,602	1,716	1,833	2,358	3,146
CWIP	0	14	111	0	0
Intangible assets	18	15	22	22	22
Deferred tax assets, net	(43)	(55)	(41)	(41)	(41)
Other assets	52	102	119	117	146
Total assets	3,395	3,735	4,274	4,936	6,175

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	636	794	969	885	1,310
Interest expenses	38	38	9	4	3
Non-cash adjustments	9	12	(14)	0	0
Changes in working capital	44	(122)	(160)	(127)	(53)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	727	722	804	763	1,261
Capital expenditures	(622)	(189)	(299)	(500)	(900)
Change in investments	0	(13)	4	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(622)	(202)	(295)	(500)	(900)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	90	(308)	(70)	0	(9)
Interest expenses	(38)	(38)	(9)	(4)	(3)
Dividends paid	(129)	(134)	(153)	(152)	(240)
Other financing cash flows	5	10	(37)	0	0
Cash flow from financing	(71)	(471)	(269)	(156)	(252)
Changes in cash and cash eq.	34	49	240	107	109
Closing cash and cash eq.	122	171	412	519	627

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	15.3	19.0	23.2	20.9	31.2
Adjusted EPS	15.3	19.0	23.2	20.9	31.2
Dividend per share	2.8	3.0	4.0	4.0	6.2
Book value per share	54.0	69.8	87.9	104.8	129.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	2.7	2.3	2.3	2.3	1.8
EV/EBITDA	25.9	19.7	19.2	20.7	13.8
Adjusted P/E	39.8	31.9	26.1	29.1	19.4
P/BV	11.2	8.7	6.9	5.8	4.7

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	69.7	65.1	76.1	74.8	74.8
Interest burden (PBT/EBIT)	98.0	99.5	103.1	104.0	103.8
EBIT margin (EBIT/Revenue)	9.7	11.0	11.0	10.2	12.2
Asset turnover (Revenue/Avg TA)	4.0	3.8	3.3	2.7	2.8
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.0	1.0	1.0
Adjusted ROAE	31.8	30.7	29.5	21.6	26.6

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	18.0	15.7	0.8	(1.9)	25.0
EBITDA	46.5	31.3	1.9	(8.2)	48.6
Adjusted EPS	55.8	24.7	22.3	(10.2)	49.8
Profitability & Return ratios (%)					
EBITDA margin	10.2	11.6	11.8	11.0	13.1
EBIT margin	9.7	11.0	11.0	10.2	12.2
Adjusted profit margin	6.6	7.1	8.6	7.9	9.5
Adjusted ROAE	31.8	30.7	29.5	21.6	26.6
ROCE	38.2	42.1	36.2	27.3	33.8
Working capital days (days)					
Receivables	64	58	59	65	60
Inventory	0	0	0	0	0
Payables	30	29	25	26	29
Ratios (x)					
Gross asset turnover	6.1	5.5	5.1	4.1	4.0
Current ratio	1.9	2.0	2.5	2.8	2.5
Net interest coverage ratio	22.7	29.8	126.1	255.0	457.7
Adjusted debt/equity	0.1	0.0	(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%

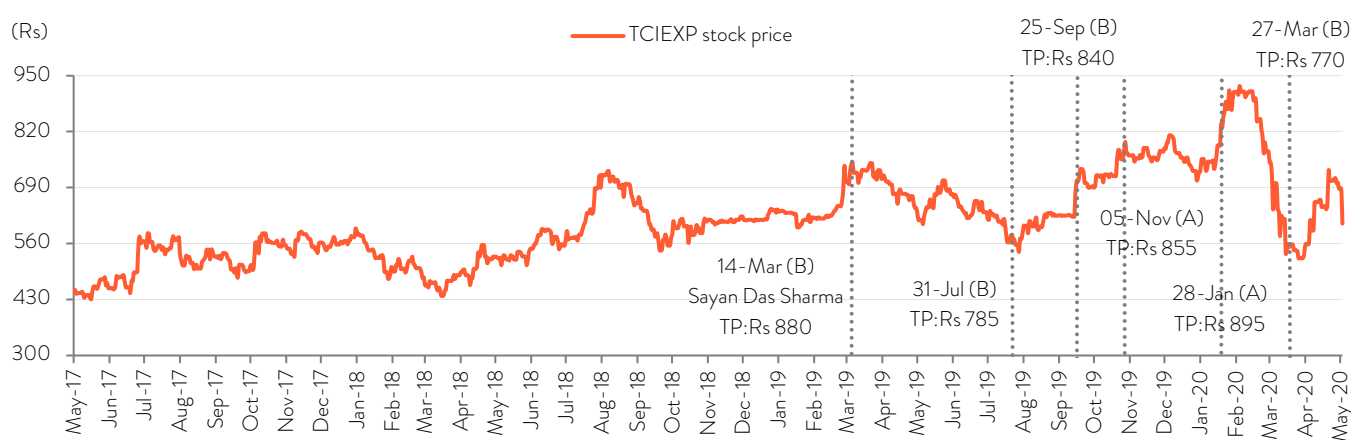
ADD – Expected return from >+5% to +15%

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)

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



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

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