

CMP: INR 961

Target: INR 1346

Result Update - BUY

Key Share Data

Face Value (INR)	2.0
Equity Capital (INR mn)	76.1
M.Cap (INR mn)	36553.4
52-w k High/Low (INR)	1024/491
Avg. Daily Vol	3003.0
BSE Code	540212
NSE Code	TCIEXP
Reuters Code	TCI:NS
Bloomberg Code	TCIEXP:IN

Company Background

TCI Express (TCIEXP), originally established in 1996 as a division of Transport Corporation of India Ltd (TCI), came into existence after its demerger from TCI in 2016, promoted by Mr. D.P. Agarwal, Chairman and Mr. Chander Agarwal, Managing Director. It has emerged as amongst the fastest growing surface express logistics company, offering customised solutions. It enjoys ~5% market share with pan-India network comprising of 28 sorting centres (8 owned and 20 leased), 800+ branches, servicing 40,000+ pickup and delivery points through 5,000+ containerized vehicles, covering more than 95% of PIN codes in India. TCIEXP also specializes in international air express serving 202 countries.

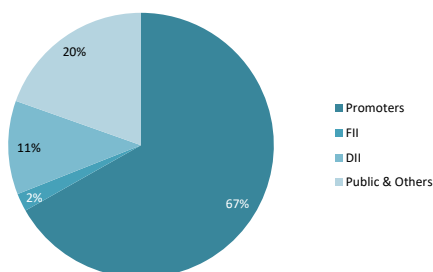
Investment Rationale

Muted volumes led to muted topline

► During Q3FY21, TCIEXP reported net sales of Rs 2,625 mn, registering de-growth of ~2.2% y-o-y. However, topline attained pre-COVID level during the quarter. Q3FY21 was a mixed quarter which saw pick-up in demand due to festive season but after recovery in October, core industries deteriorated in November. Index for Industrial Production for few key customer industries, such as pharmaceuticals declined by 0.8% y-o-y, textiles by 9.8% y-o-y, machinery and equipment by 5.4% y-o-y in November. The Company reported sales volumes of 215,000 MT vis-a-vis 225,000 MT in the corresponding period last year. SMEs contributed 52% to the total revenue of the Company (normally 50%). The Company also under took a rate hike of 2% across clients, during the quarter. Management said that demand started picking up again from December onwards. The Company witnessed de-growth of ~29% during 9MFY21 at Rs 5,641.9 mn.

► **Historically, the express industry has grown at ~1.5-2x India's GDP growth. In the light of subdued first half of FY21, we have built in a ~19% dip in FY21E topline and expect sustained recovery going forward, buoyed by a rise in economic activity. Going forward, we expect TCIEXP net sales to grow at ~29% and ~15% to ~Rs 10.8 bn and ~Rs 12.4 bn during FY22E and FY23E respectively.**

Shareholding Pattern (Dec 31, 2020)



Key Financials (INR Million)

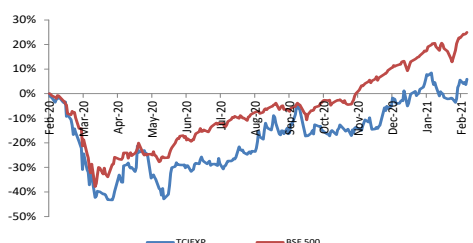
Particulars	FY20	FY21E	FY22E	FY23E
Net Sales	10,319.6	8,396.5	10,806.0	12,465.8
Growth (%)	0.8%	-18.6%	28.7%	15.4%
EBITDA	1,213.0	1,272.1	1,810.2	2,152.2
PAT	890.8	930.4	1,314.1	1,564.5
Growth (%)	22.3%	4.4%	41.2%	19.1%
EPS (INR)	23.2	24.3	34.3	40.8
BVPS (INR)	88.0	108.2	138.5	0.0

Key Financials Ratios

Particulars	FY20	FY21E	FY22E	FY23E
P/E (x)	41.4	39.6	28.0	23.6
P/BVPS (x)	10.9	8.9	6.9	5.6
Mcap/Sales (x)	3.6	4.4	3.4	3.0
EV/EBITDA (x)	30.3	28.4	19.8	16.3
ROCE (%)	33.4%	28.5%	31.8%	30.7%
ROE (%)	26.4%	22.4%	24.7%	23.8%
EBITDA Mar (%)	11.8%	15.2%	16.8%	17.3%
PAT Mar (%)	8.6%	11.1%	12.2%	12.6%
Debt - Equity (x)	0.0	0.0	0.0	0.0

Source: Company, SKP Research

Price Performance - TCIEXP vs BSE 500



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EBITDA Margins at all-time high of 17.3%

► During Q3FY21, EBITDA margins reached all-time at 17.3% y-o-y registering an increase of 449 bps on the back of high capacity utilisation, prudent operating cost management and increase in realisations taken by the Company. Management said that with improved business sentiments, the Company has given salary increments to employees from October 1, 2020 onwards. EBITDA margin increased by 225 bps at 14.2% during 9MFY21. With the recovery of sales volume to pre-COVID levels during the quarter, we expect EBITDA margins to be maintained in the vicinity of ~17% FY23E.

► PAT Margin also improved by 330 bps at 12.8% y-o-y, largely due to increase in operating margins, and increase in other income. Going forward, we expect PAT margins to remain in the vicinity of ~13% during FY23E.

Construction of sorting centres in Gurugram and Pune

► TCIEXP has envisaged a capex plan of Rs 4 bn to be spent over five years, funded through internal accruals. Out of this, it plans to spend Rs 3.5 bn for building up its own sorting centres, thereby doubling total sorting centres space from 2 mn sq.ft to 4 mn sq.ft.

► During the Q3FY21, TCIEXP held a ground-breaking ceremony for its two new sorting centres at Gurugram and Pune with capacity of 2 lakh sq.ft and 1.5 lakh sq.ft., respectively. Construction of Gurugram sorting centre is complete. However, due to delay in receiving regulatory approvals, it is expected to become operational by Q4FY21 onwards (earlier Q3FY21). Pune sorting centre is expected to get commissioned by Q1FY22. The Company incurred Rs 410 mn as capex during 9MFY21. Four more sorting centres at Nagpur, Indore, Chennai and Mumbai are also in the pipeline, construction of which will start soon.

► The Company's objective is to invest in automation and implementation of business intelligence tools to reduce turnaround time and have enhanced operational efficiencies in long run by reduction of direct cost.

VALUATION

► With revival in economy and business activities, we expect TCIEXP to emerge as a strong player due to its asset-light model, focus on B2B segment with pan India presence, improving operating efficiencies led by cost rationalisation, capex funded through internal accruals and strong balance sheet.

► We have valued TCIEXP on PE basis, assigning a multiple of 33x to FY23E EPS of Rs 40.8 and recommend a 'Buy' on the stock with the target price of Rs 1,346 (~40%) in 18 months.

Q3FY21 Standalone Result Review

(All data in Rs mn unless specified, Y/e March)

	Q3FY21	Q3FY20	YoY	Q2FY21	QoQ	9MFY21	9MFY20	YoY
Net Sales	2,625.0	2,683.8	-2.2%	2,129.5	23.3%	5,641.9	7,940.2	-28.9%
Operating Expenses	1,776.0	1,895.9	-6.3%	1,444.4	23.0%	3,798.7	5,676.7	-33.1%
RM to sales (%)	67.7%	70.6%	--	67.8%	--	67.3%	71.5%	--
Staff Cost	232.5	251.4	-7.5%	220.6	5.4%	640.3	768.0	-16.6%
% to Sales	8.9%	9.4%		10.4%		11.3%	9.7%	
Other Exp	163.1	193.5	-15.7%	138.9	17.4%	403.5	549.3	-26.5%
% to Sales	6.2%	7.2%	--	6.5%	--	7.2%	6.9%	--
Total Expenditure	2,171.6	2,340.8	-7.2%	1,803.9	20.4%	4,842.5	6,994.0	-30.8%
EBIDTA	453.4	343.0	32.2%	325.6	39.3%	799.4	946.2	-15.5%
EBIDTA Margin (%)	17.3%	12.8%	--	15.3%	--	14.2%	11.9%	--
Depreciation	21.7	21.3	1.9%	21.7	0.0%	64.5	57.2	12.8%
EBIT	431.7	321.7	34.2%	303.9	--	734.9	889.0	-17.3%
EBIT Margin (%)	16.4%	12.0%	--	14.3%	--	13.0%	11.2%	--
Other Income	16.6	8.6	93.0%	14.6	13.7%	45.9	32	43.4%
Interest	1.6	1.5	6.7%	3.1	-48.4%	6.0	6.3	-4.8%
EBT	446.7	328.8	35.9%	315	41.6%	775	915	-15.3%
Tax	110.6	73.5	50.5%	80.5	37.4%	194.5	214.0	-9.1%
Effective Tax Rate (%)	24.8%	22.4%	--	25.5%	-3.0%	25.1%	23.4%	--
Adjusted PAT	336.1	255.3	31.6%	234.9	43.1%	580.3	700.7	-17.2%
PAT Margin (%)	12.8%	9.5%	--	11.0%	--	10.3%	8.8%	--
EPS (Rs)	8.6	6.6	28.9%	6.1	40.1%	15.1	18.3	-17.3%

Source: Company & SKP Research

Chart 1: Operating Revenues

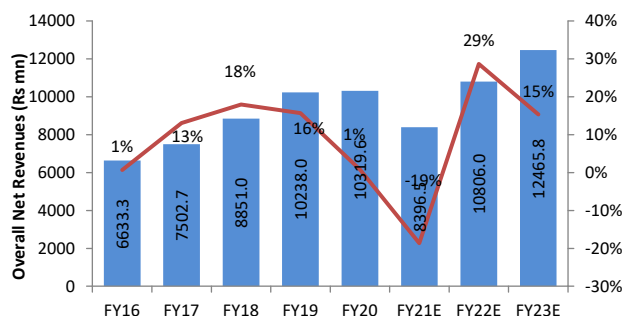


Chart 2: EBITDA Margins

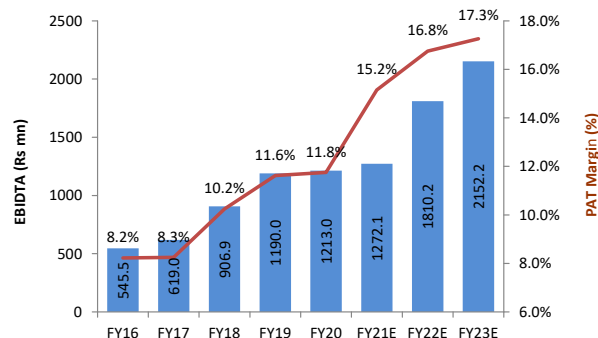


Chart 3: PAT Margins

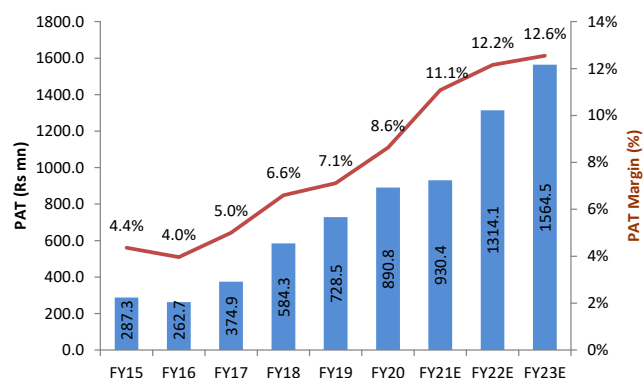
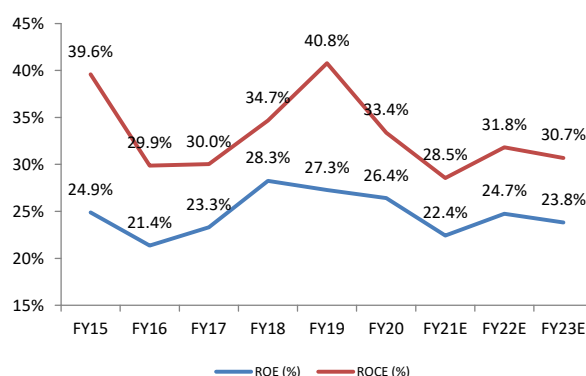


Chart 4: ROE & ROCE



Source: SKP Research

Risk Factors

Slowdown in the Economy: Express industry growth is directly linked with country's GDP growth rate. Unfortunately, the GDP took severe dent during Q1FY21 when it contracted by ~23.9% due to lock down imposed by Government of India due to COVID – 19 pandemic, however it recovered during Q2FY21, though still negative at 7.5%. With the pick-up in high frequency indicators like Government's expenditure in growth oriented projects it is expected that GDP will move towards positive trajectory (0.1%) during Q3FY21. Recently, IMF projected growth of 11.5% in real GDP for 2021 on the back of stronger than expected recovery in 2020. However, any unprecedented slowdown in the economy may put pressure on the growth prospects of the express industry.

Rising fuel prices: Logistic sector is fuel price sensitive; any increase in fuel prices can hit the bottom line of the company in this segment. However, as a prudent policy TCIEXP has introduced separate diesel clause in FY19. Thus, TCIEXP is insulated with the diesel price hike.

Competition risk & Transportation: Express industry is highly concentrated with ~95% unorganised players. Also, in organised players there are few players only. Any further competition from unorganised or organised can impact market share and profitability of TCIEXP.

TCIEXP does not own a fleet. Any strike or disruption at fleet owner's, can be a risk to TCIEXP.

Standalone Financials

Exhibit: Income Statement

Rs mn

Particulars	FY20	FY21E	FY22E	FY23E
Total Income	10,319.6	8,396.5	10,806.0	12,465.8
Growth (%)	0.8%	-18.6%	28.7%	15.4%
Expenditure	9,106.6	7,124.4	8,995.8	10,313.6
Operating Expenditure	7,341.6	5,652.5	7,202.2	8,215.0
Employee Cost	1,018.0	890.3	1,037.2	1,201.1
Repair & Maintenance	747.0	581.5	756.4	897.5
EBITDA	1,213.0	1,272.1	1,810.2	2,152.2
Depreciation	77.9	84.2	118.8	138.1
EBIT	1,135.1	1,187.9	1,691.4	2,014.2
Other Income	43.7	62.1	70.2	81.0
Interest Expense	9.0	6.8	5.5	4.5
Profit Before Tax (PBT)	1,169.8	1,243.3	1,756.1	2,090.7
Income Tax	279.0	312.9	442.0	526.2
Profit After Tax (PAT)	890.8	930.4	1,314.1	1,564.5
Growth (%)	22.3%	4.4%	41.2%	19.1%
Diluted EPS (Rs)	23.2	24.3	34.3	40.8

Exhibit: Balance Sheet

Rs mn

Particulars	FY20	FY21E	FY22E	FY23E
Share Capital	76.7	76.9	76.9	76.9
Reserve & Surplus	3,296.1	4,072.7	5,233.0	6,489.8
Shareholders Funds	3,372.8	4,149.6	5,309.8	6,566.7
Total Debt	28.4	12.1	5.1	-
Deferred Tax (Net)	41.2	41.2	41.2	41.2
Other Long Term Liab	1.2	1.0	1.3	1.4
Total Liabilities	3,443.6	4,203.8	5,357.4	6,609.4
Net Block inc. Capital WIP	1,965.3	2,370.1	2,851.3	3,313.3
Investments	295.0	295.0	295.0	295.0
Other Non Current Assets	119.4	100.8	129.7	149.6
Sundry Debtors	1,657.7	1,343.4	1,729.0	1,994.5
Cash & Bank Balance	126.0	687.0	1,101.6	1,714.0
Other Current Assets	60.0	50.4	64.8	74.8
Loans & Advances	91.9	75.6	97.3	112.2
Current Liabilities & Prov	871.7	718.4	911.2	1,044.0
Net Current Assets	1,063.9	1,438.0	2,081.4	2,851.5
Total Assets	3,443.6	4,203.8	5,357.4	6,609.4

Exhibit: Cash Flow Statement

Rs mn

Particulars	FY20	FY21E	FY22E	FY23E
Profit Before Tax (PBT)	1,169.8	1,243.3	1,756.1	2,090.7
Depreciation	77.9	84.2	118.8	138.1
Interest Provided	9.0	6.8	5.5	4.5
Chg. in Working Capital	(125.4)	205.5	(257.5)	(177.4)
Direct Taxes Paid	(316.6)	(312.9)	(442.0)	(526.2)
Other Charges	(6.9)	-	-	-
Operating Cash Flows	807.8	1,226.8	1,180.9	1,529.6
Capital Expenditure	(189.8)	(489.0)	(600.0)	(600.0)
Investments	(282.5)	-	-	-
Others	(122.7)	-	-	-
Investing Cash Flows	(595.0)	(489.0)	(600.0)	(600.0)
Changes in Equity	23.4	-	-	-
Inc / (Dec) in Debt	(59.2)	(16.3)	(7.0)	(5.1)
Dividend Paid (inc tax)	(212.7)	(153.8)	(153.8)	(307.6)
Interest Paid	(9.2)	(6.8)	(5.5)	(4.5)
Others	0.00	0.00	0.00	0.00
Financing Cash Flows	(257.7)	(176.9)	(166.3)	(317.2)
Chg. in Cash & Cash Eqv	(44.9)	560.9	414.5	612.4
Opening Cash Balance	171.0	126.1	687.0	1,101.6
Closing Cash Balance	126.1	687.0	1,101.6	1,714.0

Exhibit: Ratio Analysis

Particulars	FY20	FY21E	FY22E	FY23E
Earning Ratios (%)				
EBITDA Margin (%)	11.8%	15.2%	16.8%	17.3%
PAT Margins (%)	8.6%	11.1%	12.2%	12.6%
ROCE (%)	33.4%	28.5%	31.8%	30.7%
ROE (%)	26.4%	22.4%	24.7%	23.8%
Per Share Data (Rs/Share)				
Diluted EPS	23.2	24.3	34.3	40.8
Cash EPS (CEPS)	23.3	24.3	34.3	40.8
BVPS	88.0	108.2	138.5	171.2
Valuation Ratios (x)				
P/E	41.4	39.6	28.0	23.6
Price/BVPS	10.9	8.9	6.9	5.6
EV/Sales	3.6	4.3	3.3	2.8
EV/EBITDA	30.3	28.4	19.8	16.3
EV/EBIT	32.4	30.5	21.1	17.4
Balance Sheet Ratios				
Debt - Equity	0.0	0.0	0.0	0.0
Current Ratio	2.2	3.0	3.3	3.7
Fixed Asset Turn. Ratios	5.6	3.5	3.8	3.8

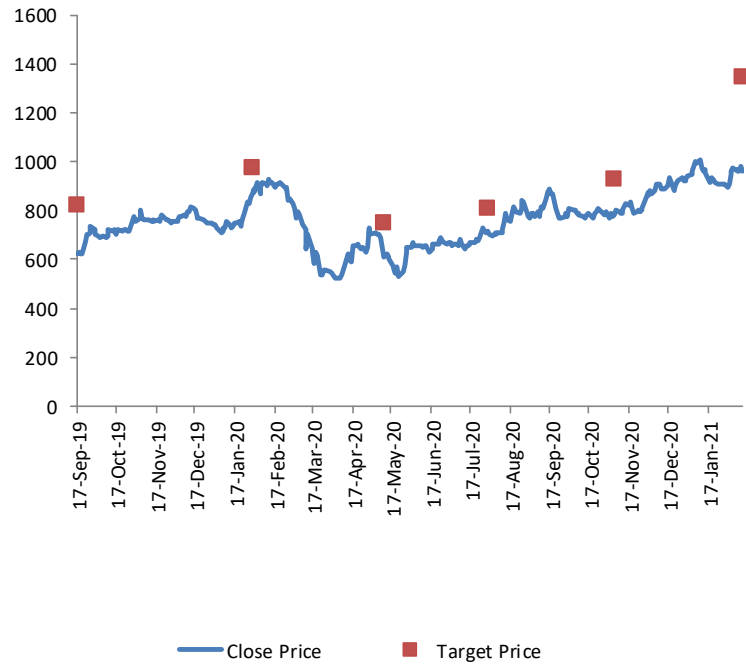
Source: Company Data, SKP Research

Exhibit: Recommendation -History Table

Date	Rating	Issue Price	Target Price	Upside Potential	Period (months)
17-09-19	BUY	625	823	32%	12
13-11-19	NEUTRAL	753	--	--	--
03-02-20	HOLD	881	973	10%	--
13-05-20	BUY	618	749	21%	15
30-07-20	ACCUMULATE	716	807	13%	15
05-11-20	BUY	785	926	18%	12
12-02-21	BUY	961	1346	40%	18

Source: SKP Research

Exhibit: Recommendation -History



Source: BSE, SKP Research

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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