February 10, 2021

Result Report Q3 FY21 | Sector: Logistics

TCI Express

BUY	CMP Rs968	Target Rs1120	Upside 16%

Strong show - BUY

Conference call takeaways

- **Volumes and Revenue:** Volumes stood at 0.215 MT during Q3 FY21 (0.225 MT in Q3 FY20). During 9M FY21 volumes stood at 0.46 MT vs 0.675 MT yoy. The revenue was affected due to slowdown in business (business slowed down post festive season in October) and evolving political situation in few parts of country which restricted the growth. Farmer protest had very miniscule impact on the revenue. The SME and corporate mix stood at 52%: 48% (value-wise). The revenue from air segment and e-com segment stood at 8% and 4% respectively. The Company is targeting to increase the share of air express to 10% E-comm proportion to 6-7% in coming years.

- **Price:** Price hike saw Realizations improved by ~2% during the quarter on blended basis

- **Demand:** Demand improved with the opening up of the economy and pick up in the business activities, most business near pre-Covid levels. October saw good demand growth due to festive season but November saw contraction in production across most sectors. Currently Machinery/Auto/Pharma doing well for the company. The other key segments that contribute to the revenue are Telecom, equipment, paints. None of the segments contribute more than 10%. Expects turnaround in textile segment.

- **Utilisation:** Capacity Utilisation stood at 86% for the quarter.

- **SME customers** too saw an improvement. October saw very good demand. Enquiries are coming from SME segment and has added few customers in this segment during the quarter

- **Margin:** The company reported gross margin of 32.3% vs 29.4 % YoY/ 32.2% QoQ. The margins improved on the back of 1) Healthy revenue 2) higher utilization 3) higher efficiency and 4) Digitisation. Targets to increase the Gross margin to 35% and reduce operating cost to 63-64% in coming years.

- **Labor cost:** Hikes given to the employees during the quarter which would reflect in Q4 FY22. Expects FY22 employee cost to be at FY20 levels or 2-3% higher.

- **Capex:** Incurred capex of Rs 150 mn in Q3 FY21 and Rs 410 mn during the 9M FY21 on the expansion of sorting centres and IT infrastructure. Pune sorting centre construction is complete and is expected to be operational in Q4 FY21. Delays in opening of Pune sorting centre was due to delay in receiving regulatory permissions due to Covid-19. The Company opened 20 new branches during 9MFY21 in the metro cities to deepen TCI Express presence (10 branches opened during 1H FY21). The company plans to commence Gurgaon sorting centre unit in Q1 FY22. The company plan to double the branch network in next 3-4 years remains intact.

- **Other Details** (1) The cash flow from operations and Free cash flow for 9MFY21 stood at Rs.857 mn and Rs.444 mn respectively (2) Interim dividend of Rs.2/sh declared (3) No of e-way bills increased in October but dipped in November due to contraction in production while it improved in December. (4) Currently has 28 sorting centres and 7-8 centres are under development.

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Our view: While the volumes have been subdued, the margins have been a positive surprise. With the pickup in business activity, the volumes are expected to pick up in FY22/23. The addition of clients in SME segment and further pickup in Ecomm business would support growth. The asset light nature of business would allow the Company to capitalize on the expected improvement in business activity. We roll forward our estimates to FY23 and maintain our BUY rating on the stock for a revised target price of Rs.1120/sh (32x FY23).

TCI Express Q3 FY21 Result Summary

- ✓ Revenue declined by 2% YoY (higher 23% QoQ) to Rs.2.6 bn. This was marginally lower than our estimates of Rs.2.8 bn
- ✓ The company reported gross margin of 32.3% vs 29.4 % YoY/ 32.2% QoQ. Operating profit saw sharp improvement (32% YoY) to Rs.453 mn as against a Rs.326 mn in Q2 FY21 which was impacted due to lockdown. Operating Margins improved to 17.3% vs 12.8% YoY/15.3% QoQ. The drop in cost was seen across employee cost, RM cost and other expenses.
- ✓ Higher operating profit saw APAT grow to Rs.336 mn during Q3 FY21 (Rs.255 mn in Q3 FY20). This was higher than our estimate of ~Rs.270 mn.
- ✓ The Company declared an Interim dividend of Rs.2 per share. (Record date – Feb 17)

Exhibit 1: Result table (Consolidated)

(Rs mn)	Q3 FY21	Q3 FY20	% yoy	Q2 FY21	% qoq
Revenue	2,625	2,684	(2.2)	2,130	23.3
Operating Profit	453	343	32.2	326	39.3
OPM(%)	17.3	12.8	449 bps	15.3	198 bps
Other Income	17	9	93.0	15	13.7
Depreciation	(22)	(21)	1.9	(22)	-
Interest	(2)	(2)	6.7	(3)	(48.4)
PBT	447	329	35.9	315	41.6
Tax	(111)	(74)	50.5	(81)	37.4
APAT	336	255	31.6	235	43.1

Exhibit 2: Financial summary (Cons)

Y/e 31 Mar (Rs m)	FY20	FY21E	FY22E	FY23E
Revenues	10,320	8,341	10,641	12,189
yoy growth (%)	0.8	(19.2)	27.6	14.5
Operating profit	1,213	1,241	1,610	1,874
OPM (%)	11.8	14.9	15.1	15.4
Reported PAT	891	903	1,167	1,348
yoy growth (%)	22.3	1.4	29.2	15.5
EPS (Rs)	23.1	23.4	30.3	35.0
P/E (x)	41.9	41.3	31.9	27.7
EV/EBITDA (x)	30.5	29.7	22.8	19.5
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	29.5	23.8	24.8	23.5

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