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### Q4FY21 result review and earnings change

## Logistics

Target price: Rs1,306

(%)	FY22E	FY23E
Sales	↓ 5.6	-
EBITDA	↑ 3.1	↑ 17.1
EPS	↑ 3.4	↑ 17.7

### Target price revision

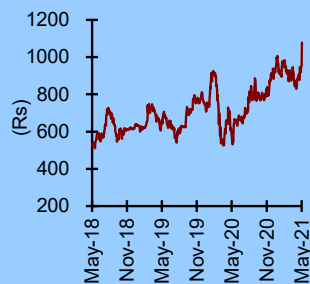
Rs1,306 from Rs1,109

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	66.8	66.8	66.8
Institutional investors	11.8	12.2	12.6
MFs and others	9.7	9.9	10.3
FIs and Banks	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FII	2.1	2.3	2.3
Others	21.4	21.0	20.6

Source: NSE

### Price chart



## TCI Express

**BUY**

**Maintained**

**Rs1,077**

### Margins continue to expand

TCI Express (TCIE) reported higher than expected EBITDA and PAT on the back of better than expected margins. EBITDA margins have again expanded ~260bps QoQ/960bps YoY to reach 19.6%. Q4FY21 volumes were up 15% YoY, while blended realisations including the pass-through for diesel price hike was 2.3%. This is not akin to runaway price hikes that we see in air-express as belly cargo stays off the curb. Margin salience in road express has been more driven by i) cost control ii) asset light nature of business and better bargaining power over truckers as rail keeps on pressurizing road freight. Increase in pricing with improvement in domestic manufacturing can be *added optionality* for operationally efficient players like TCIE with proper business moat. In addition, none of the margin buoyancy is driven by ecommerce bulge. Maintain BUY with a revised target price of Rs 1306/share (Rs 1109/share earlier).

- ▶ **Topline at Rs2.8bn was up 18% YoY.** This was mainly due to 15% increase in volume, while TCIE could increase realisation by 2.3% YoY. The price increases undertaken paved the way for gross margin to expand. Gross margin increased 90bps QoQ to 33.2% (up 320bps YoY). Management is confident that with expectant increase in volumes over FY22/23E both annual gross margins and EBITDA margins can expand significantly from here on.
- ▶ **Strong guidance.** Management guided for a doubling of topline and quadrupling of profit in four years. FY22E should see a 25% increase in revenue and 30%+ increase in profit. Management expects to witness continued expansion in margins and is targeting 20% EBITDA margins in the next couple of years.
- ▶ **Targeted capex to augment capacity, maintaining high FCF; FY21 FCF at Rs621mn.** Capex incurred during FY21 was primarily towards setting up sorting centres at Gurgaon and Pune – Gurgaon is operational while Pune construction is complete and regulatory approvals are awaited. Rs 500mn will be spent towards automation. Management intends to spend Rs1bn on capex each on FY22/23E. The current spending is part of 5 year capex plan of Rs4bn, of which Rs 2bn has been spend in the last 4 years. The expected payback for the capex is 4.5-5 years.
- ▶ **Introduction of new product lines to further augment topline and margins.** What impresses most is the introduction of two new product lines i) Cold Chain Express Service, an asset light model and use existing hub and spoke network to meet the growing demand for Cold Chain logistics and ii) customer-to-customer C2C express service – inducting both fast trucking connecting a set of locations and milk run i.e single/multiple point pickup and single/multipoint delivery. These are premium services introduced to capture high margin business lines with a meaningful revenue potential – management expects C2C can contribute Rs5bn in the next 5 years.

Market Cap	Rs41.6bn/US\$571mn	<b>Year to March</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
Reuters/Bloomberg	HALC.BO/TCIEXP IN	Revenue (Rs mn)	10,320	8,440	10,269	12,409
Shares Outstanding (mn)	38.4	Net Income (Rs mn)	891	1,006	1,204	1,562
52-week Range (Rs)	1,111/532	EPS (Rs)	23.3	26.3	31.4	40.8
Free Float (%)	33.2	% Chg YoY	22.3	12.9	19.7	29.8
FII (%)	2.3	P/E (x)	40.8	36.2	30.2	23.3
Daily Volume (US\$/'000)	432	CEPS (Rs)	25.3	28.6	34.3	44.4
Absolute Return 3m (%)	13.6	EV/E (x)	29.9	26.9	21.7	16.5
Absolute Return 12m (%)	91.3	Dividend Yield (%)	0.4	0.4	0.4	0.4
Sensex Return 3m (%)	(1.8)	RoCE (%)	34.5	30.6	30.0	30.8
Sensex Return 12m (%)	67.1	RoE (%)	26.4	23.2	22.3	23.0

### Research Analysts:

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**Table 1: Q4FY21 result review***(Rs mn, Year ending March 31<sup>st</sup>)*

	Q4FY21	Q4FY20	Chg. YoY (%)	Q3FY21	Chg. QoQ (%)
Net income from operations	2,798	2,379	17.6	2,625	6.6
<b>Total income from operations</b>	<b>2,798</b>	<b>2,379</b>	17.6	<b>2,625</b>	6.6
Operating expenses	1,869	1,665	12.2	1,776	5.2
Gross Margin	929	715	30.1	849	9.5
<i>Gross Margin (%)</i>	33.2	30.0		32.3	
Employee wages	233	250	(6.8)	233	0.3
Other expenses	153	198	(22.9)	163	(6.5)
<b>Total expenses</b>	<b>2,254</b>	<b>2,113</b>	6.7	<b>2,172</b>	3.8
<b>EBITDA</b>	<b>544</b>	<b>267</b>	103.8	<b>453</b>	19.9
<i>EBITDA Margin (%)</i>	19.4	11.2		17.3	
Depreciation	25	21	21.7	22	16.1
Other Income	31	12	161.5	17	84.3
Finance Cost	2	3	(33.3)	2	12.5
PBT	547	255	114.6	447	22.5
Tax	122	65	87.2	111	
<b>PAT</b>	<b>426</b>	<b>190</b>	123.9	<b>336</b>	26.7

Source: Company data, I-Sec research

**Table 2: Performance assessment**

	Q4FY21	Q4FY20	Chg. YoY (%)	Q3FY21	Chg. QoQ (%)
Realisation/te growth (%)	2.3	(0.2)		0.8	
Tonnage growth (%)	15.0	(10.3)		(3.0)	
Realisation/te (Rs)	12,165	11,897	2.3	11,766	3.4
Gross Margin/te (Rs)	4,041	3,573	13.1	3,805	6.2
EBITDA/te (Rs)	2,364	1,334	77.2	2,032	16.3

Source: Company data, I-Sec research

## Key conference call takeaways

**Strong guidance.** Management guided for a doubling of topline and quadrupling of profit in four years. FY22E should see a 25% increase in revenue and 30%+ increase in profit. Management expects to witness continued expansion in margins and is targeting 20% EBITDA margins in the next couple of years.

**Introduction of new product lines** – cold chain and C2C express. TCI Express successfully launched Cold Chain Express Service, an asset light model and use existing hub and spoke network to meet the growing demand for Cold Chain logistics. Management is planning to dispatch pharma shipments either frozen (blood plasma) or vaccines under the prescribed temperature as norms ensuring there are no fluctuation in the temperature. TCI Express also launched India's first customer-to-customer C2C express service – inducting both fast trucking connecting a set of locations and milk run i.e single/multiple point pickup and single/multipoint delivery. Management expects C2C business to clock Rs 5bn topline in the next 4-5 years. More importantly, both the product line will enhance margins.

**Capex plan.** Capex incurred during FY21 was primarily towards setting up owned sorting Centre at Gurgaon and Pune – Gurgaon is operational while Pune construction is complete and regulatory approvals are awaited. Rs 500mn will be spent towards automation. Management intends to spend Rs1bn on capex each on FY22/23E. The current spending is part of 5 year capex plan of Rs4bn, of which Rs 2bn has been spend in the last 4 years. Management did highlight, that land has been purchased in Chennai and Pune while the same has been finalised in Kolkata for additional sorting centres.

## Assumptions

**Table 3: Assumptions (New)**

	FY20	FY21	FY22E	FY23E
Tonnage (mnte)	0.88	0.70	0.85	1.02
Realisation/te	11,727	11,961	12,081	12,202
Cost of Sales/te	8,343	8,096	8,215	8,297
Realisation/branch (Rs mn)	13.4	10.5	11.2	12.2
No of Branches	770	807	920	1,020
Workforce	3,075	3,223	3,675	4,075

Source: Company data, I-Sec research

## Maintain BUY with a revised target price of Rs1306/share

We maintain **BUY** with a revised target price of Rs1,306/share (previously Rs1109/share) based on 32x FY23E EPS.

## Key risks

The key upside risks are i) increase tonnage with improvement in domestic manufacturing and ii) cost efficiencies obtained in FY21 are retained as volumes comes back. Key downside risks are i) increased rail share leading to a shift in business model for express players like TCIE and ii) more omni-channel developments requiring higher technology investments and a business disruption favoring start-ups in the space.

## Earnings change

We have increased FY22/23E margin assumptions to factor in FY21 trend and guidance.

**Table 4: Performance assessment**

(Rs mn)

	FY22E			FY23E		
	Old	New	% Chg	Old	New	% Chg
Sales	10,873	10,269	(5.6)	12,409	12,409	0.0
EBITDA	1,597	1,647	3.1	1,822	2,133	17.1
PAT	1,164	1,204	3.4	1,327	1,562	17.7

Source: Company data, I-Sec research

## Financial summary

Table 5: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Revenue from operations</b>	<b>10,320</b>	<b>8,440</b>	<b>10,269</b>	<b>12,409</b>
<b>Operating Expenses</b>	<b>9,107</b>	<b>7,097</b>	<b>8,622</b>	<b>10,276</b>
<b>EBITDA</b>	<b>1,213</b>	<b>1,343</b>	<b>1,647</b>	<b>2,133</b>
% margins	11.8%	15.9%	16.0%	17.2%
Depreciation & Amortisation	78	90	109	139
Gross Interest	9	8	8	9
Other Income	44	77	80	103
<b>Profit before tax</b>	<b>1,170</b>	<b>1,322</b>	<b>1,609</b>	<b>2,089</b>
Less: Taxes	279	316	406	526
<b>Net Income (Reported)</b>	<b>891</b>	<b>1,006</b>	<b>1,204</b>	<b>1,562</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	2,222	2,729	3,005	3,892
of which cash & cash eqv.	126	272	607	1,153
Total Current Liabilities & Provisions	861	1,034	952	1,092
<b>Net Current Assets</b>	<b>1,361</b>	<b>1,695</b>	<b>2,053</b>	<b>2,800</b>
Net Fixed Assets	1,816	2,244	2,936	3,598
Intangible assets	22	18	18	18
Capital Work-in-Progress	111	278	278	278
Other non-current assets	145	169	169	169
<b>Total Assets</b>	<b>3,454</b>	<b>4,403</b>	<b>5,453</b>	<b>6,862</b>
<b>Liabilities</b>				
Borrowings	40	10	10	10
Deferred Tax Liability	41	54	54	54
Equity Share Capital	77	77	77	77
Reserves & Surplus	3,296	4,262	5,312	6,722
<b>Net Worth</b>	<b>3,373</b>	<b>4,338</b>	<b>5,389</b>	<b>6,798</b>
<b>Total Liabilities</b>	<b>3,454</b>	<b>4,402</b>	<b>5,453</b>	<b>6,862</b>

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Net Profit before tax</b>	<b>1,170</b>	<b>1,322</b>	<b>1,609</b>	<b>2,089</b>
Depreciation	78	90	109	139
Non-Cash Adjustments	2	(30)	3	3
Working Capital Changes	(125)	90	(24)	(201)
Taxes Paid	(317)	(284)	(406)	(526)
<b>Operating Cashflow</b>	<b>808</b>	<b>1189</b>	<b>1292</b>	<b>1503</b>
Capital Commitments	(190)	(568)	(801)	(801)
<b>Free Cashflow</b>	<b>618</b>	<b>621</b>	<b>491</b>	<b>702</b>
Other investing cashflow	(283)	(392)	0	0
<b>Cashflow from Investing Activities</b>	<b>(595)</b>	<b>(960)</b>	<b>(801)</b>	<b>(801)</b>
Inc (Dec) in Borrowings	(59)	(10)	0	0
Finance cost	(9)	(8)	(3)	(3)
Dividend paid	(213)	(77)	(153)	(153)
<b>Cashflow from Financing Activities</b>	<b>(258)</b>	<b>(83)</b>	<b>(156)</b>	<b>(156)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(45)</b>	<b>146</b>	<b>335</b>	<b>546</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	23.3	26.3	31.4	40.8
Cash EPS	25.3	28.6	34.3	44.4
Book Value per share (BV)	88.1	113.3	140.7	177.6
OCF per share	21.1	31.0	33.7	39.2
FCF per share	16.1	16.2	12.8	18.3
<b>Growth (%)</b>				
Net Sales	0.8	(18.2)	21.7	20.8
EBITDA	1.9	10.7	22.6	29.5
PAT	22.3	12.9	19.7	29.8
<b>Valuation Ratios (x)</b>				
P/E	46.3	41.0	34.3	26.4
P/BV	12.2	9.5	7.7	6.1
EV / EBITDA	33.9	30.5	24.7	18.8
EV / Sales	4.0	4.9	4.0	3.2
<b>Operating Ratios</b>				
Employee cost / Sales (%)	9.9	10.3	9.6	8.8
Effective Tax Rate (%)	23.9	23.9	25.2	25.2
Net D/E Ratio (x)	(0.0)	(0.1)	(0.1)	(0.2)
FCF yield (%)	1.5	1.5	1.2	1.7
<b>Return/Profitability Ratios (%)</b>				
EBITDA Margins	11.8	15.9	16.0	17.2
Net Income Margins	0.1	0.1	0.1	0.1
Return on Equity (RoE)	26.4	23.2	22.3	23.0
RoCE	34.5	30.6	30.0	30.8

Source: Company data, I-Sec research

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