Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

TCI Express Ltd

Healthy show amid macro challenges

Logistics	Sharekhan code: TCIEXP
Reco/View: **Buy** ↔	CMP: **Rs. 1,519**	Price Target: **Rs. 2,070** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

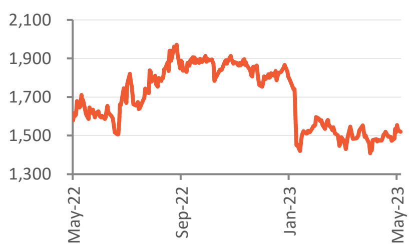
Company details

Market cap:	Rs. 5,793 cr
52-week high/low:	Rs. 2,100 / 1,384
NSE volume: (No of shares)	0.9 lakh
BSE code:	540212
NSE code:	TCIEXP
Free float: (No of shares)	1.2 cr

Shareholding (%)

Promoters	69.7
FII	2.0
DII	10.2
Others	18.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.5	-3.5	-18.7	-3.8
Relative to Sensex	0.1	-9.3	-18.9	-16.1

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on TCI with an unchanged PT of Rs. 2,070, considering favourable risk-reward and high earnings growth trajectory over the next two years.
- TCI Express Limited (TCI) reported better-than-expected standalone net profit for Q4FY2023 led by OPM beat. Higher utilisation and demand from both corporate and SME customers drew improved profitability.
- The company targets a 17-18% y-o-y revenue growth for FY2024 led by 15% y-o-y volume growth guidance while it expects 100bps y-o-y expansion in OPM.
- Capex plan of Rs. 500 crore during FY2023-FY2028 would majorly be invested in sorting centres and automation. High aspirations in newly ventured Rail and C2C businesses.

TCI Express Limited (TCI) reported better-than-expected standalone net profit led by beat on OPM for Q4FY2023. Standalone revenues increased 9.4% y-o-y to Rs. 326 crores, led by volume growth of 8% y-o-y, while it could not take price hikes during the quarter. OPM at 16.6% (down 24 bps y-o-y, up 194bps q-o-q) came in higher than our estimate of 15.6% owing to higher gross margins (up 244 bps q-o-q). Improved profitability and growth was primarily driven by higher capacity utilization of 85%, demand from both corporate and SME customers. Consequently, operating profit/net profit rose by 7.8%/7% y-o-y to Rs. 54.1 crore/Rs. 38.5 crores (beating our estimates). The company targets to grow its revenues at 17-18% y-o-y in FY2024 led by 15% y-o-y volume growth and expects OPM to rise 100 bps supported by 2% price hike. For FY2025, it targets revenues of Rs. 1750 crore to Rs. 1800 crore. It would be incurring Rs. 500 crore capex during FY2023 to FY2028 (Rs. 125 crore incurred in FY2023) majorly in sorting centres and automation.

Key positives

- OPM improved 194 bps q-o-q to 16.6% aided by expansion in gross margins.
- The company generated Rs. 147 crores cash flows from operations in FY2023. Full year dividend of Rs. 8 per share.

Key negatives

- Inability to take price hike due to weak macro environment.
- 35 branches added versus earlier guidance of 40 plus in FY2023.

Management Commentary

- Company targets to grow FY2024 revenues by 17-18% y-o-y (earlier 20% y-o-y) expected volume growth of 15% y-o-y (earlier 18% y-o-y). It targets 100 bps y-o-y expansion in OPM to 17.5% aided by 2% price hike in FY2024. It has set revenue target of Rs. 1750 crore to Rs. 1800 crore (earlier Rs. 1900 crore) for FY2025.
- It will be setting up five sorting centres at Ahmedabad, Kolkata, Chennai, Nagpur and Indore. It has bought land in Ahmedabad and Kolkata and would start land acquisition in Mumbai and Bangalore.
- It added 35 new branches during FY2023 and targets to add 50-75 branches in FY2024.

Revision in estimates – We have fine-tuned our earnings estimates for FY2024-FY2025.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 2,070: TCI has been affected by a sluggish macro environment during H2FY2023 although it has performed well vis-à-vis industry peers. We expect the company to stay firm on its revenue growth trajectory and margin expansion over the next two years as domestic economic environment revives. The continuous expansion by setting up new sorting centres and automation of existing centres, addition of new branches and scale up of new businesses would provide more than 20% net earnings CAGR over FY2023-FY2025E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. We retain a Buy with an unchanged price target (PT) of Rs. 2,070 considering favourable risk-reward and strong earnings growth trajectory.

Key Risks

Sustained weak macroeconomic environment can lead to a downward revision in net earnings.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,081.5	1,241.0	1,443.0	1,686.2
OPM (%)	16.2	15.7	16.9	17.9
Adjusted PAT	128.9	139.3	173.8	215.7
% YoY growth	28.1	8.1	24.8	24.1
Adjusted EPS (Rs.)	33.5	36.4	45.4	56.3
P/E (x)	45.4	41.8	33.5	27.0
P/B (x)	10.8	9.6	7.9	6.3
EV/EBITDA (x)	32.8	29.5	23.6	19.0
RoNW (%)	26.6	24.6	26.1	26.2
RoCE (%)	26.0	24.4	25.4	25.6

Source: Company; Sharekhan estimates

OPM surprise leads to PAT beat

Net revenues grew by 9.4% y-o-y (up 3.8% q-o-q) to Rs. 326.3 crore which was in-line with our estimate. The growth was primarily driven by strong demand from the MSME and Corporate segment as well as higher utilisation in newly developed sorting center facilities. The company reported better-than-expected operating margin at 16.6% (down 24 bps y-o-y, up 194 bps q-o-q) on account of improvement in gross margins (up 244 bps q-o-q to 32.8%). Hence, operating profit grew by 7.8% y-o-y (up 17.5% q-o-q) to Rs. 54.1 crore which was 5% higher than our estimate. Standalone net profit at Rs 38.5 crore (up 7% y-o-y, up 20.1% q-o-q) was 9% higher than estimate.

Key Conference Call Takeaways

- **Guidance:** The company targets 17-18% y-o-y rise (earlier 20% y-o-y) in FY24 revenues and expects a volume growth of 15% y-o-y (earlier 18% y-o-y). It targets 100 bps y-o-y expansion in OPM to 17.5% aided by 2% price hike in FY2024. It has set a revenue target of Rs. 1750 crore to Rs. 1800 crore (earlier Rs. 1900 crore) for FY2025 while maintained its earlier guidance of doubling revenues by FY2027 with rise in profitability by three times. It expects to grow at over 2x of India's GDP going ahead.
- **Q4FY2023 performance:** Standalone revenues were up 9% y-o-y and 4% q-o-q at Rs. 328 crore led by volume growth of 8% y-o-y. Operating profit was up 8% y-o-y and 18% q-o-q at Rs. 54 crore. Net profit was up 7% y-o-y and 20% q-o-q at Rs. 38.5 crore. It generated Rs. 147 crore operating cash flows in FY2023 and has cash balance of Rs. 49 crore. For FY2023, it declared dividend of Rs. 8 per share. It completed Rs. 42.5 crore buyback programme. Despite macro-challenges, it outperformed industry growth rate during FY2023.
- **Sorting centres:** It will be setting up five sorting centres at Ahmedabad, Kolkata, Chennai, Nagpur and Indore. It has bought land in Ahmedabad and Kolkata and would start land acquisition in Mumbai and Bangalore. It has started construction work at Nagpur. The average capex for one sorting centre will be Rs. 45-50 crores (Rs. 50-65 crores in metros like Mumbai and Rs. 30 crores for non-metros like Nagpur and Indore). By FY2026, it expects to have 7-8 sorting centres.
- **Rail services:** Rail segment customers has scaled up to 2200 customers from 250. The segment is growing faster than other two services viz. Pharma cold chain and C2C. While cold chain pharma has limited business, it has high growth aspirations for C2C and railway segments.
- **Sector outlook:** Pharma has remained evergreen while good growth is expected from new segments like Kitchenware and Bathware. About 55% of revenues come from Auto, Pharma, Engineering, Electronics and lifestyle with each segment share at 9-13%. Its top 25 customers does not give more than 15% of revenues.
- **Branch additions:** It added 35 new branches during FY2023 and targets to add 50-75 branches in FY2024.
- **Capex:** It did capex of Rs. 125 crores in FY2023 towards land acquisition in Kolkata and Ahmedabad apart from new corporate office in Gurgaon and setting up on branches.

Results (Consolidated) Rs cr

Particulars	Q4FY2023	Q4FY2022	Y-o-Y %	Q3FY2023	Q-o-Q %
Net sales	**326.3**	**298.2**	**9.4%**	**314.4**	**3.8**
Other income	1.7	2.1	-20.5%	1.3	28.5
Total income	327.9	300.3	9.2%	315.7	3.9
Total expenses	272.1	248.0	9.7%	268.3	1.4
Operating profit	**54.1**	**50.2**	**7.8%**	**46.1**	**17.5**
Depreciation	4.2	3.2	32.9%	4.3	-2.1
Interest	0.7	0.3	155.2%	0.4	68.2
Profit Before Tax	**50.9**	**48.9**	**4.1%**	**42.7**	**19.3**
Taxes	12.4	12.9	-3.9%	10.6	16.8
PAT	38.5	35.9	7.0%	32.0	20.1
Adjusted PAT	**38.5**	**35.9**	**7.0%**	**32.0**	**20.1**
EPS (Rs.)	10.0	9.4	7.0%	8.4	20.1
			BPS		**BPS**
OPM (%)	16.6%	16.8%	-24	14.7%	194
NPM (%)	11.8%	12.0%	-26	10.2%	160
Tax rate (%)	24.4%	26.4%	-203	24.9%	-51

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Strong growth outlook led by changing consumer preferences and macro pick-up**

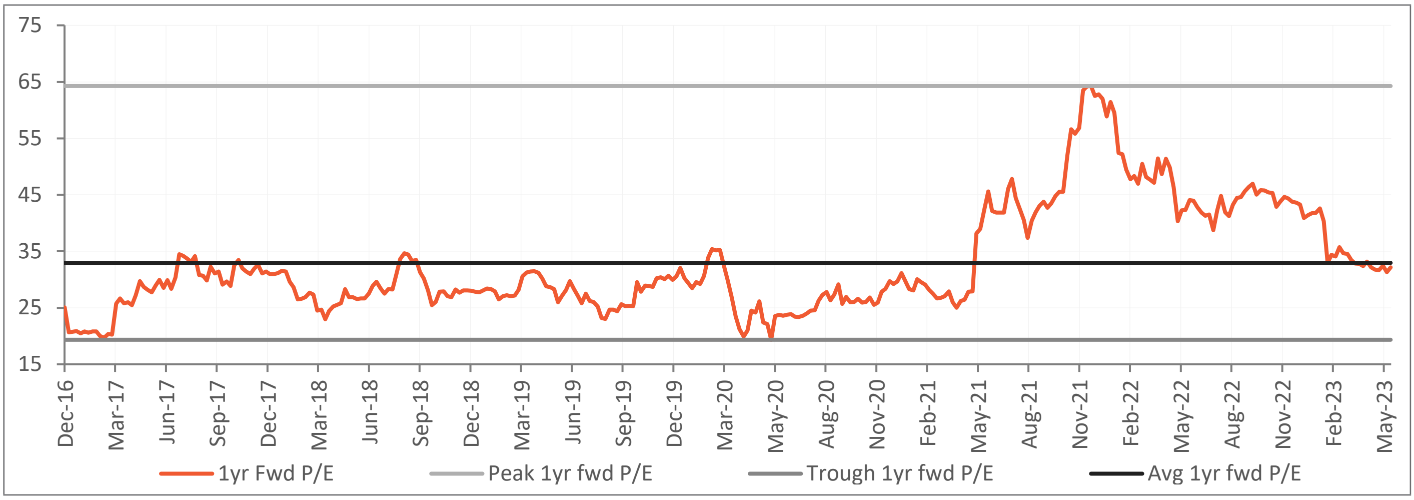
The logistics industry is one of the key sectors which has shown a strong revival post-COVID-19 pandemic, which affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generation, FASTag collections, Indian rail volumes, domestic port volumes, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve business, led by user industries' preference towards credible supply chain management in the wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen faster improvement in operations, led by segments such as e-commerce, pharmaceuticals, and FMCG. Hence, we have a Positive view of the sector.

■ **Company Outlook – Profitable growth outlook**

The management is optimistic on growth outlook over the next two years, expecting strong demand from the SME segment (which comprises almost 50% of revenue). The company expects to achieve 17-18% y-o-y revenue growth for FY2024. On the OPM front, it expects to continue aiming for a 50-100 bps y-o-y improvement each year to be driven by higher capacity utilisation and cost efficiencies. TCI has also launched three new value-added services called Cold Chain Express (catering to pharma and frozen food packaging companies), C2C Express (first-to-launch customer-to-customer service with multi-location pick-up and delivery), and Rail Express (to cater to B2B air cargo business). The company remains optimistic about growth and expects to gain market share. The company targets to reach Rs. 1,800 crores in revenue and OPM of 19-20% in FY2025.

■ **Valuation – Retain Buy with an unchanged PT of Rs. 2,070:** TCI has been affected by a sluggish macro environment during H2FY2023 although it has performed well vis-à-vis industry peers. We expect the company to stay firm on its revenue growth trajectory and margin expansion over the next two years as domestic economic environment revives. The continuous expansion by setting up new sorting centres and automation of existing centres, addition of new branches and scale up of new businesses would provide more than 20% net earnings CAGR over FY2023-FY2025E. Further, TCI has a strong balance sheet, a healthy cash flow-generation capacity, and high return ratios. We retain a Buy with an unchanged price target (PT) of Rs. 2,070 considering favourable risk-reward and strong earnings growth trajectory.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Mahindra Logistics	76.6	31.3	7.0	5.5	3.9	3.5	5.9	13.1
TCI Express	33.5	27.0	23.6	19.0	7.9	6.3	26.1	26.2

Source: Sharekhan Research

About company

TCI is a leading time-definite express distributor, with a network of 700 offices covering more than 40,000 locations. The company commenced operations in 1997 and has over two decades of industry experience. The company demerged from Transport Corporation of India in 2016 and was listed on December 15, 2016. The company offers services comprising surface, domestic and international air, e-commerce, priority, and reverse express services. TCI has over 3,000 plus a workforce with 28 sorting centres. The company caters to consumer electronics, retail, apparel and lifestyle, automobile, pharmaceuticals, engineering, e-commerce, energy/power, and telecommunications.

Investment theme

TCI has over two decades of experience in the logistics business, catering to surface transport that fetches 86% of revenue. The logistics industry is estimated to be worth Rs. 300 billion (~12% of India's GDP) and is majorly serviced by the road network (~60% share). The road express industry is expected to grow at 12-15%, twice GDP growth, during the next five years. TCI has a 5% value market share in the organised segment and is expected to be the biggest beneficiary in the industry, where the unorganised segment holds over 90% share.

Key Risks

- Weak macroeconomic environment, especially the manufacturing sector.
- Slowdown in SMEs as half of TCI's business comes from SMEs.
- Inability to increase market share from unorganised players in the post-GST era.

Additional Data

Key management personnel

Mr. D P Agarwal	Chairman and Director
Mr. Chander Agarwal	Managing Director
Mr. Pabitra Panda	CEO
Mr. Mukti Lal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BHORUKA EXPRESS	44.47
2	TCI TRADING	6.48
3	Canara Robeco Asset Management Co	4.50
4	Chamaria Sushma	2.65
5	Agarwal Vineet	2.59
6	Agarwal Priyanka	2.54
7	Agarwal Urmila	2.41
8	Agarwal Chander	2.39
9	Sundaram Asset Management Co Ltd	1.54
10	HDFC Asset Management Co Ltd	1.16

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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