TCI Express Limited

Logistics – Road

Credit Perspective

October 2019

RATING ACTION

Reaffirmed

Long - term Rating

-

Issuer Rating

-

Short - term Rating

[ICRA]A1+

Total Limits Rated

Rs. 25 crore commercial paper programme

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Rating Rationale

The rating reaffirmation factors in the strong operational performance of TCI Express Limited (TCI Express) aided by its widespread infrastructure, integrated nature of operations and established brand strength in the express distribution business. TCI Express continues to have a healthy proportion of contracted business (~50% of overall revenues), which provides adequate revenue visibility, even as the fragmented nature its business leads to stiff competition. Although the current subdued economic environment is likely to moderate the company's revenue growth prospects in the near-term, an expectation of a gradual improvement in industrial activity, resulting in better load availability for the company, is likely to help it record a healthy revenue growth in the medium term. A gradual structural shift in preference for organised fleet operators post the implementation of the Goods and Services Tax (GST) also bodes well for the company's growth prospects.

Although the company's presence is limited to the express distribution business, it enjoys a diversified customer and segment profile, which insulates its business to an extent from a demand downturn in any particular industry. The assigned rating also favourably factors in its strong financial risk profile as characterised by a conservative capital structure, strong liquidity profile and robust return (RoCE of 44.5% in FY2019) and debt coverage indicators (Interest coverage ratio of 31.5 times in FY2019). Its asset-light model, wherein the company does not have any owned fleet on its books and relies on the fleet hired from attached business vendors, provides TCI Express with the flexibility to manage its fleet requirements during downturns and helps retain its profitability and return indicators. Additionally, the working capital intensity in the business continues to remain at moderate levels, which has helped the company maintain a strong liquidity profile.

TCI Express has capex plans (Rs. 70-80 crore per annum) for strengthening its infrastructure, by setting up various company-owned and operated express sorting centres. The capex is likely to be primarily funded through its expected cash accruals, thereby helping TCI Express keep its dependence on external borrowings at low levels.

ICRA would continue to monitor the company's ability to manage its working capital cycle and liquidity profile, as its operations scale up further. ICRA also notes that the proceeds from the rated commercial paper programme are intended to be utilised for funding the working capital requirements, as per the objects of the issue. Any deviation from the above, which has the effect of exerting pressure on its asset-liability position, would be a rating sensitivity.

Scenarios for Rating Downgrade

Negative pressure on the rating could arise if an increase in working capital intensity led by an elongation in receivable cycle, results in a deterioration in the company's liquidity position and debt coverage metrices (Total Debt/OPBDITA greater than 1.5 times on a sustained basis).

Key Rating Considerations

Credit Strengths

- Widespread network/infrastructure and established brand strength in the express distribution business
- Asset-light model, with dependence on leased/hired vehicles, helps in minimising idle capacity during downturns
- Diversified customer base insulates the business from a demand downturn in any particular industry
- Healthy profitability and return indicators; strong financial risk profile

Credit Challenges

- Profitability remains susceptible to increase in vehicle hire charges and ability to pass on variations in fuel prices
- Intense competition from organised and unorganised players, given the fragmented nature of the industry

Company Profile

TCI Express Limited was formed after the demerger of the express distribution (XPS) division of Transport Corporation of India (TCI) (rated [ICRA]A1+) into a separate company. The business caters to the non-document segment (1–40kg) through road, rail and air modes and follows an extremely asset-light model, without any owned fleet. The company has a pan India network, with 28 sorting centres across the country and an attached fleet size of ~5,000 containerised vehicles and more than 750 branches.

TCI, incorporated in 1958, is one of the largest organised logistics companies in India, with a nation-wide reach. The demerger of the express distribution business of TCI was approved by its board of directors in its meeting held on October 8, 2015. After the approval from TCI's shareholders and creditors, followed by no objection certificates received from the stock exchanges and the High Court of Telangana and Andhra Pradesh, the appointed date of the demerger was set at the close of business hours on March 31, 2016.

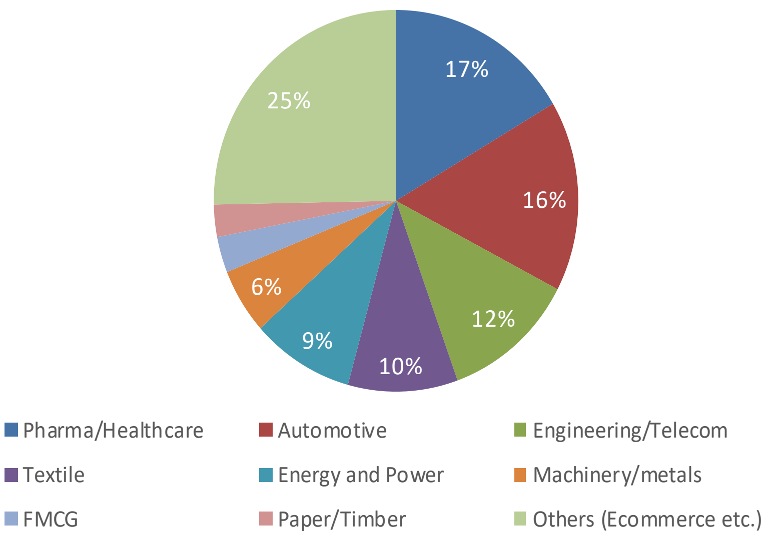
BUSINESS RISK PROFILE

Diversified segment and customer profile provides cushion against business downturns

TCI Express is a leading player in the express distribution business and has a widespread distribution network on a pan India basis. The company provides services across broadly four areas: domestic surface express, domestic air express, international air express and e-commerce express with domestic surface express being the largest revenue contributor.

Over the years, the company has maintained a strong customer profile, which has remained fairly stable and aided a healthy growth in its revenues. TCI Express caters to various industries, with contribution of 10-17% each from sectors such as Automotive (primarily aftermarket), Pharmaceuticals, Textiles, Engineering goods, Telecom among others. The diversified business mix insulates the business from a downturn in demand in a particular industry, thereby providing healthy revenue visibility over the medium term.

EXHIBIT 1: Industry Vertical wise business mix



Source: Company data

Asset light business model, characterised by dependence on leased/hired vehicles; supported by a robust IT infrastructure

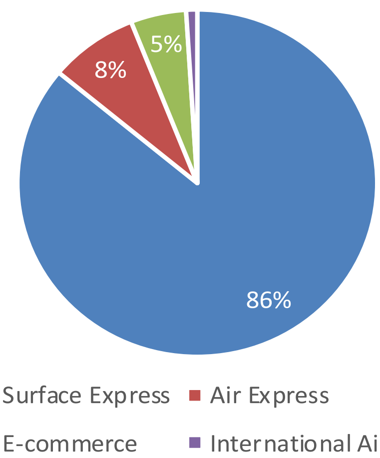
Similar to many other express logistic companies, TCI express also operates on an asset-light business model and continues to rely on ~5,000 containerised medium-duty vehicles from attached business vendors and associates to meet its customer requirements. As per management discussions, ~90-92% of the total fleet requirement is managed through attached vendors, with the remaining being hired from the market. The asset light nature of operations helps the company in saving on fixed costs (related to fleet) in the event of business downturns, thereby helping the company maintain stable profitability margins.

TCI Express has a strong distribution network through the last mile connectivity offered by its own delivery centres and associates, as well as cargo pick-up from customer locations. The company operates through a hub-and-spoke model, with 28 express sorting centres spread across the country acting as hubs and various distribution centres acting as smaller hubs to optimise on costs. For air transport contributing to ~9-10% of revenues, TCI Express continues to have an association with all major air carriers. The physical infrastructure is supported by a robust IT infrastructure with automated systems such as Electronic Data Interchange (EDI) and Application Programme Interface (API); the IT systems enable the customers to track their shipments and are also supported by a dedicated customer care centre. The management continues to focus on improving its IT systems further, with technologies such as Big data Service, Cloud Service, Drone delivery etc. expected to drive growth in the sector over the medium to long term.

Gradual ramp up in revenues from e-commerce and International Air business to supplement revenue growth prospects

TCI Express has been focussed on enhancing its presence in the e-Commerce segment over the past few years, with the company catering to both the Business-to-Business (B2B) and Business-to-Customer (B2C) segments within e-commerce logistics value chain. While in the B2B segment, it is engaged in transportation of goods between warehouses/fulfillment centres, in the B2C segment, it provides last mile delivery from warehouses/merchants to customers. As per discussions, the company has been able to get business from nearly all the leading e-Commerce players as a result of its efforts. The company has adopted a strategy of having an exclusive network to cater to the B2C ecommerce segment in only the Tier 2 and Tier 3 cities owing to limited competition The management has refrained from entering the Tier I cities/metros, as it believes that B2C operations in these markets are not financially viable owing to aggressive pricing strategy adopted by several start-ups in the logistics sector.

EXHIBIT 2: Business mix



Source: Company Data

There has been a gradual ramp up in revenues from the e-commerce segment over the years, and the segment at present contributes ~5% to the company's revenues. The management has indicated that the company would continue to grow this business at a gradual pace going forward as well, with focus on profitable operations. In addition to the e-Commerce business, the management remains optimistic about the growth prospects of its International Air cargo business, wherein TCI Express is engaged in delivering packages to around 200 countries through its agents and delivery partners overseas. Over the years, the company has entered into contracts with several international shipment majors to use their networks for providing such services. At present, the business constitutes ~1-2% of the company's total revenues and the management plans to further increase its reach with a view of recording moderate growth in this business over the medium term.

Capex on upgrading infrastructure and modernisation of hubs planned

The company has budgeted a capex of about Rs. 70-80 crore/annum going forward. Apart from regular capex towards continued strengthening of its IT Infrastructure and material handling capabilities, the company also plans to invest about Rs.

50-60 crore per annum towards construction of sorting centres across several locations (ranging from 75,000–200,000 sq. ft.). As on date, the company has 28 sorting centers, out of which 21 are on leased basis. The company plans to invest in setting up its own sorting centres, which would help the company increase its operating margins by saving on rentals; additionally, the management indicated that the company is also likely to derive saving on direct costs (loading/unloading) because of higher automation as well as locational advantage of the owned sorting centres. With regards to capex requirements towards enhancing IT capabilities, the company plans to continue its efforts to further upgrade its tracking systems, using the latest technology available.

Implementation of GST has created a level playing field for express distribution fleet operators

In the pre-GST tax regime, the Goods Transport Agency (GTA) operators had a pricing advantage over the express cargo operators because of 70% abatement on the service tax. The express cargo operators usually carried finished goods and the absence of input tax credit on movement of finished goods was a pricing disadvantage. However, post the GST implementation, the availability of input tax credit to the company's customers has negated the advantage available to GTA operators, and has boosted the growth prospects of the express distribution fleet operators.

Some of the other gradual changes in the dynamics of the logistic sector post the implementation of the new tax regime (GST) and E-way billing are as follows:

- Organised players are expected to gain share from unorganised sector
- Consolidation of warehouses expected to lead to a hub and spoke model of transportation
- Fewer hindrances to movement of goods to help reduce transit time and improve transportation efficiency as a result of increased transportation lot sizes
- Multi modal transport model to be encouraged

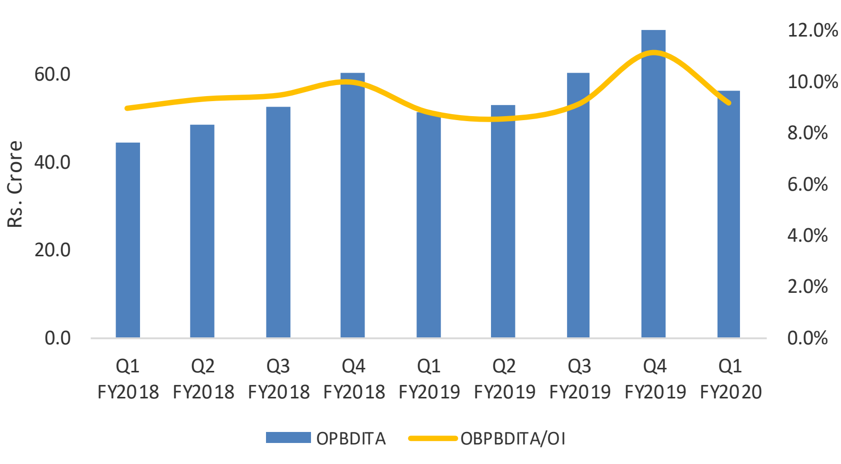
TCI Express is one of the leading players in the organised express distribution industry. Given the enhanced requirement for logistics services in the post GST-era, the company's brand strength and established distribution network are likely to help its report a healthy growth in business going forward.

FINANCIAL RISK PROFILE

Healthy revenue growth in FY2019, aided by an increase in preference for organised players in the post GST scenario; operating efficiencies help improve profitability indicators

In FY2019, TCI Express business grew at a healthy rate of ~15% to Rs. 1,023.8 crore, with the company continuing to obtain healthy business, primarily through renewal of contracts with its various customers. In addition to growth in business with existing customers, a structural shift in preference of customers towards the organised segment post the implementation of GST also helped the company gain business from new customers. The revenue growth in the current fiscal has been muted, with the company recording growth of 3.5% in Q1 FY2020.

EXHIBIT 3: Trend in OPBDITA and Operating Margin



Source: Company Results

Even as sluggishness in the economy is likely to moderate the company's revenue growth prospects in the current fiscal, an expectation of a gradual improvement in industrial activity, resulting in better load availability for the company, is likely to help the company record a healthy growth in revenues over the medium term.

The operating margins have improved to 11.6% in FY2019 from 8.3% in FY2017, driven by benefits of operational efficiencies as well as a marginal decline in competitive intensity from un-organised players; the company's efforts towards further improving its IT infrastructure and modernisation of hubs coupled with its ability to attain contracts entailing a diesel hike fluctuation pass through clause is likely to help it maintain a healthy operating profitability going forward as well. The company's ROCE also remains at robust levels (44.5% in FY2019), benefitting from the healthy profitability and asset light nature of business. The company plans to incur capex on an annual basis going forward towards strengthening its IT and material handling capabilities; while this could lead to a marginal moderation in RoCE going forward, it is expected to remain at healthy levels.

Strong financial risk profile; debt protection metrics expected to remain strong despite capex plans

The total debt outstanding on the company's books as of March 31, 2019 was only Rs. 9.8 crore. The capital structure remains conservative with the company maintaining negligible debt levels aided by healthy cash flow generation and efficient working capital management.The coverage indicators remain robust with the company having a NCA/Total Debt of 687.4% and Total Debt/OPBITDA of 0.1 time in FY2019.

The company plans to incur Rs 70-80 crore of capex on an annual basis going forward, primarily towards setting up owned sorting centres; the same would be funded primarily through internal accruals, with the dependence on external borrowings expected to remain low. Despite the moderate capex plans, the cash accruals are likely to help the company maintain a robust financial risk profile.

Working capital intensity remains at moderate levels

The company has managed to keep its overall debtors at moderate levels despite weakening in the liquidity position of some of its customers, owing to the moderation in economic activity. It normally enters into contracts for ~50% of its revenues and provided a credit period of 60-70 days to these customers. For the remaining business, the booking is generally made on a spot basis and payment is received upfront. As such, the overall receivable days remain low at about 50-60 days. Since the company makes payment to its vendors in about 35 days, the working capital requirements remain low.

CAPITAL EXPENDITURE AND FUNDING PLANS

Capital expenditure plans towards strengthening IT Infrastructure and material handling capabilities

The company has budgeted a capex of about Rs 70-80 crore/annum going forward. Apart from regular capex towards continued strengthening of its IT Infrastructure and material handling capabilities, the company plans to invest about Rs 50-60 crore/annum towards construction of sorting centres across several locations. Despite the significant capex plans, the cash accruals are likely to help the company maintain a healthy financial risk profile.

DEBT REPAYMENT AND LIQUIDITY PROFILE

Strong cash flow from operations aid liquidity profile

The company's fund flow from operations remains healthy aided by healthy profitability and low working capital intensity. With capex outgo towards construction of owned sorting centres remaining low in FY2019, the free cash flows of the company were also healthy.

TCI Express's liquidity position is **strong**, characterised by an expectation of stable retained cash flows of ~Rs. 60-80 crore annually, low utilisation of working capital limits (average utilisation of ~10-20%), and moderate cash and bank balances (~Rs. 15-20 crore). The company's annual debt repayments remain limited to marginal vehicle loans (Rs. 1.2 crore in FY2020); while it has a planned capex of ~Rs. 70-80 crore/annum (capex plans remain flexible and may be revised to lower levels in keeping with the demand scenario), the expected cash accruals are likely to limit any incremental dependence on external borrowings.

EXHIBIT 4: Trend in Debt Repayments

In Rs. crore	FY2018	FY2019	FY2020P	FY2021P	FY2022P
Annual Debt Repayments	-	0.8	1.2	1.2	1.2

Source: Company data; ICRA research

BUSINESS AND FINANCIAL OUTLOOK

The demand for freight movement is expected to remain at healthy levels over the medium term, driven by a growth in industrial production and improvement in consumption demand. In the post-GST era, the availability of input tax credit to express cargo customers has negated the advantage available to GTA operators. Coupled with an expected gradual shift in preference towards organised players post the implementation of GST, the same is likely to help TCI Express record a healthy growth in revenues over the medium term.

EXHIBIT 5: Financial Outlook

Parameters	ICRA's Comments
Revenue Growth	Likely to growth at healthy pace (i.e. 11-14%) over the next few years, aided by a gradual shift in preference for organised players post implementation of GST
Profitability Indicators	Profitability expected to remain at healthy levels (OPBDITA margin to range between 11-12%); various cost efficiency measures undertaken, coupled with expected decline in rentals post setting up owned sorting centres, likely to aid some improvement in operating margins
Repayment Obligations	No long-term loans on books, apart from insignificant vehicle loans. The capex outlay towards setting up sorting centres is expected to be primarily funded through internal accruals, thereby keeping repayment obligations low
Capital Expenditure Plans	Expected capital expenditure of Rs. 70-80 crore/annum over the next few years towards setting up owned sorting centres, and strengthening IT and material handling capabilities
Leverage and Coverage Indicators	Capital structure (TD/TNW) to remain at conservative levels, with dependence on external debt expected to remain at low levels (Gearing to remain low at ~0.0-0.2 time) Coverage indicators (OPBDITA/Interest) to remain at robust levels (30-40 times) over the next 3-4 years
Working Capital Intensity	Working capital intensity expected to remain at moderate levels (NWC/OI to range between 8-10%)
Retained Cash Flows	Likely to remain at healthy levels (expected to range between ~Rs. 60-80 crore/annum)
Liquidity	Liquidity profile to remain comfortable; utilisation of working capital limits expected to remain at marginal levels

Source: ICRA research

PROMOTER AND MANAGEMENT PROFILE

TCI Express is promoted by the Delhi-based Agarwal family, with Mr. Chander Agarwal, as its managing director and his father, Mr. DP Agarwal, as its Chairman. Mr. Chander Agarwal, the Managing Director of TCI Express, is a Bachelor of Science in Business Administration from Bryant College, Smithfield, Rhode Island. Prior to joining TCI Express, Mr. Aggarwal had an experience with Transfreight USA, a 3PL specializing in 'lean logistics' for Toyota Motor vehicles. Mr. D P Agarwal, the Chairman of TCI Express, has been associated with the transport industry for more than 51 years. Mr. Agarwal is also associated with various Chambers of Commerce.

Mr. P C Sharma, the CEO of TCI Express, has been associated with the TCI Group since 1982. Apart from holding a B.Com Degree, Mr. Sharma has undertaken various executive training programs from renowned institutes like Indian Institute of Management – Ahmedabad, Indian School of Business, XLRI Jamshedpur, Harvard Business School and National University of Singapore.

Annexure-I: Key Financial Indicators

In Rs. crore	FY2016	FY2017	FY2018	FY2019
Revenue & Profitability Indicators				
Operating Income (OI)	0.0	750.3	885.2	1,023.8
Growth in OI (%)	-	-	18.0%	15.7%
OPBDITA	0.0	62.1	91.3	119.0
Profit After Tax (PAT)	0.0	37.5	58.4	72.8
Net Cash Accruals (NCA)	0.0	37.0	51.6	67.6
OPBDITA/OI (%)	-	8.3%	10.3%	11.6%
PAT/OI (%)	-	5.0%	6.6%	7.1%
ROCE (%)	-	34.1%	40.6%	44.5%
Capitalisation& Coverage Indicators				
Short-term Debt	39.7	30.5	38.2	6.4
Long-term Debt	1.1	1.1	2.5	3.5
Total Debt	40.8	31.6	40.7	9.8
Tangible Net Worth (TNW)	127.0	160.8	206.8	267.2
Total Debt/TNW	0.3	0.2	0.2	0.0
Total Debt/OPBDITA	-	0.5	0.4	0.1
Interest Coverage	-	25.4	24.3	31.5
TOL/TNW	0.6	0.5	0.7	0.4
NCA /TD (%)	0.0%	117.0%	127.0%	687.4%
DSCR (excl STD/prepayments)	-	14.8	15.8	18.4
Working Capital Indicators				
Debtor Days	-	55	64	58
Creditor Days	-	24	36	35
Inventory Days	-	0	0	0
NWC/OI (%)	-	10.7%	8.7%	8.2%
Cash Flow Analysis				
Fund Flows from Operations	-	39.5	63.1	77.8
Retained Cash Flows	-	46.8	55.7	61.0
Free Cash Flows	-	5.9	-5.9	35.3

Source: Company Results; Note: FY2017, FY2018 and FY2019 financials as per Ind AS

ANNEXURE II: DETAILS OF RATED FACILITY

EXHIBIT 6: Details of TCI Express's Facilities Rated on Short-term Scale

Commercial Paper	Amounts (Rs. crore)	Rating
Rated Amount	25.0	[ICRA]A1+

Links to Applicable Criteria:
Corporate Credit Rating Methodology

RELATIONSHIP CONTACT

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in and www.icraresearch.in

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