September 09, 2022

TCI Express Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	25.00	25.00	[ICRA]A1+; reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in the strong operational performance of TCI Express Limited (TCI Express), with the company continuing to benefit from its established brand strength, geographic diversification, integrated operations and continued focus on investment in infrastructure and technology in the express distribution business. Despite a moderation in earnings in Q1 FY2022 led by the challenges brought about by the COVID second wave, TCI Express reported a healthy recovery in scale of operations aided by its resilient business model. TCI Express reported revenues of Rs. 1,081.0 crore in FY2022 (a YoY growth of 28.0%) and Rs 292.4 crore in Q1 FY2023 aided by pickup in economy activities and consequently higher demand. The operating profit margin improved slightly to 16.2% in FY2022 from 15.9% in FY2021 aided by improved operational efficiencies. An expectation of a continued improvement in industrial activity, resulting in better load availability for the company, is likely to help it record a healthy revenue growth over the medium term. Further, a gradual structural shift in preference towards organised fleet operators especially post goods and service tax (GST) and E-way bill implementation; coupled with the incremental revenues from the company's new service offerings, the Rail Express, the Cold Chain Express and the C2C Express, are also expected to support its growth prospects over the medium term.

TCI Express continues to have a healthy proportion of contracted business (~75% of overall revenues), which provides adequate revenue visibility, even as the fragmented nature of its business leads to stiff competition. 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 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 ~36% in FY2022) and debt coverage indicators (interest coverage ratio of 192.0 times in FY2022). Given its asset-light model, the company does not own any fleet and relies on the fleet hired from attached business vendors. This provides the company 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. 80-100 crore per annum) for strengthening its infrastructure, and towards automation and expansion of the company owned/operated 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.

Key rating drivers and their description

Credit strengths

Widespread network/infrastructure and established brand strength in the express distribution business - TCI Express has an established brand strength and a strong distribution network on a pan India basis, offering last mile connectivity to its customers. 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 spokes to optimise on costs. Among the new services, the company has been seeing a strong demand for its new service- Rail Express which has already expanded to ~100 routes within a year of its launch. The company benefits from the established relationships with its customers/truck vendors and timely upgradation of physical and IT infrastructure which enables its customers to track their shipments in real time.

Asset-light model, with dependence on attached fleet, helps in minimising idle capacity during downturns - The company does not have any fleet on its books. In the absence of any owned fleet, the business relies on ~5,000 containerised vehicles from attached business vendors and associates to meet its customer requirements. The asset-light nature of its operations helps it in saving high-fixed costs (related to fleet) in the event of business downturns, thereby helping TCI Express maintain healthy profitability margins.

Diversified customer base insulates business from demand downturn in any particular end-user industry - TCI Express has a diversified customer base, which has remained fairly stable over the years with top 10 customers amounting to less than 10% of the revenue during FY2022. The business also caters to various industries, with revenue shares of ~10-16% each from automotive, pharmaceuticals, textiles, engineering goods, machinery and telecom among others. The business mix insulates the company from a downturn in demand in any particular industry, thereby providing healthy revenue visibility.

Healthy profitability and return indicators; strong financial risk profile - The company has a healthy financial risk profile, characterised by healthy return and profitability metrics, conservative capital structure and strong debt coverage metrics. The ROCE remains at robust levels (36% in FY2022), benefitting from the healthy profitability and asset-light nature of the business. A conservative capital structure has aided it in maintaining robust debt coverage indicators, with the company having robust credit metrics like Total Debt/OPBITDA of 0.01 time in FY2022.

Credit challenges

Profitability remains susceptible to increase in vehicle hire charges and ability to pass on variations in fuel prices - TCI Express remains exposed to a fluctuation in hire charges for market vehicles, since such rates are primarily dependent on the demand-supply position. Additionally, since the company enters freight contracts with most of its customers (estimated to account for ~75% of the overall business), its ability to pass on any variation in fuel prices remains critical in helping it maintain its profitability margins.

Intense competition from organised and unorganised players, given fragmented nature of the industry - The express distribution business is highly fragmented, with a major part of the business made up by the unorganised segment. While there exists a significant opportunity for organised players to scale up their businesses, especially post GST implementation, the fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins in renewal of contracts. TCI Express has been able to mitigate this risk to an extent, benefitting from the established relationships with its customers and timely upgradation of physical and IT infrastructure. The company's established relationships have also helped the company mitigate the increase in the competitive intensity over the years on account of the entry of private equity backed logistics players.

Liquidity position: Adequate

TCI Express' liquidity position remains **strong**, supported by healthy cash flows from operations, sizeable cash balances (~Rs. 104.0 crore as on June 30, 2022) and adequate buffer of Rs. 40.0 crore in working capital facilities owing to marginal utilisation. As against the available sources of funds, it has planned capex of Rs. 80-100 crore/annum towards automation and capacity expansion of its sorting centres. Its annual debt repayments remain limited to marginal vehicle loans (outstanding of ~Rs. 1.0 crore as on March 31, 2022). The company has also commenced buyback of up to Rs 75.0 crore starting August 2022; despite the outgo towards the same, ICRA expects TCI Express to be able to meet its near-term commitments through internal sources of cash and available lines of credit and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – Not applicable

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

TCI Express Limited (TCI Express) was formed after the demerger of the express distribution (XPS) division of Transport Corporation of India (TCI) into a separate company. The company is positioned as an express cargo logistics player mainly into surface transportation. TCI 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 900 branches. The company has a diversified customer base, which has remained fairly stable over the years. The business caters to various industries, with contribution of 10-16% each from sectors such as automotive, pharmaceuticals, textiles, engineering goods, machinery and telecom among others.

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.

Key financial indicators (audited)

TCI Express (Standalone)	FY2021	FY2022	Q1 FY2023
Operating Income (Rs. crore)	844.0	1,081.5	292.4
OPBDIT	134.3	174.7	44.4
PAT (Rs. crore)	100.6	128.8	31.0
OPBDIT/OI (%)	15.9%	16.2%	15.3%
PAT/OI (%)	11.9%	11.9%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2	-
Total Debt/OPBDIT (times)	0.0	0.0	0.0
Interest Coverage (times)	172.2	192.0	154.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of August 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					September 09, 2022	Oct 1, 2021	Nov 20, 2020	Oct 30, 2019
1	Commercial Paper	Short-term	25.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	Yet to be placed			25.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis: NA

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91-44-45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Astha Bansal
+91 124 4545 396
astha.bansal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches