

**ADD**

TP: Rs 855 | ▲ 7%

**TCI EXPRESS**

Logistics

05 November 2019

## In line quarter; downgrade to ADD on limited upside

TCI Express (TCIEXP) posted in line operating performance in Q2, with revenue/EBITDA growth of 9%/13% YoY. Lower tax rate catalysed a 60% YoY rise in PAT. Though growth ticked up vs. past two quarters, led by addition of SME clients, material growth recovery is still a few quarters away as externalities remain tough. We largely maintain earnings estimates for FY20-22 and move to a revised Mar'21 TP of Rs 855 (vs. Rs 840 earlier); downgrade to ADD from BUY due to limited upside post the recent rally.

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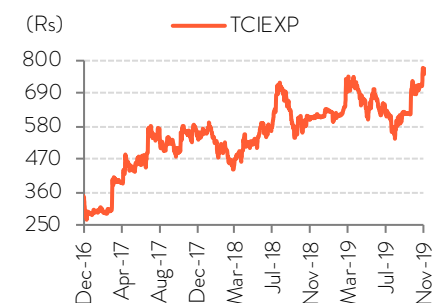
**Growth recovery eludes:** Tonnage growth (+7% YoY) languished in single digits for the third consecutive quarter. Consumption slowdown, floods in some states, and disruptions in Kashmir restricted growth in Aug-Sep, after a ~12% rise in tonnage in Jul'19. Addition of new SME clients was the growth catalyst, while volume from existing customers was subdued across industry verticals.

Ticker/Price	TCIEXP IN/Rs 796
Market cap	US\$ 431.2mn
Shares o/s	38mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 807/Rs 531
Promoter/FPI/DII	67%/4%/6%

Source: NSE

**Material uptick unlikely in H2FY20:** Management has lowered FY20 revenue growth guidance to low double digit (implies 13-14% YoY increase in H2) from 17-18% earlier, given the challenging externalities. Festive season has also been below expectations. We build in a slightly lower 12% YoY growth for H2FY20.

## STOCK PERFORMANCE



Source: NSE

**EBITDA margin resilient:** Gross margin expansion (+255bps YoY), stemming from higher utilisation of vehicles and sorting centers, negated the impact of rise in employee (+97bps) and other expenses (+122bps), translating into 36bps YoY increase in EBITDA margin to 11.4%.

**Downgrade to ADD:** We largely maintain our FY20-FY22 estimates, and move to a revised Mar'21 TP of Rs 855 set at 23x P/E (vs. 26x earlier). Downgrade rating to ADD from BUY as upside from current level is capped.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	8,851	10,238	11,174	13,056	15,331
EBITDA (Rs mn)	907	1,190	1,320	1,616	1,993
Adj. net profit (Rs mn)	584	728	942	1,155	1,423
Adj. EPS (Rs)	15.3	19.0	24.6	30.2	37.2
Adj. EPS growth (%)	55.8	24.7	29.4	22.5	23.2
Adj. ROAE (%)	31.8	30.7	30.7	29.1	28.3
Adj. P/E (x)	52.2	41.8	32.3	26.4	21.4
EV/EBITDA (x)	33.9	25.9	23.0	18.8	15.1

Source: Company, BOBCAPS Research

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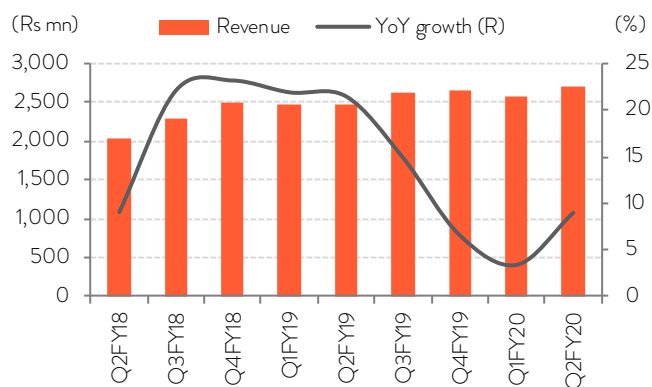


**FIG 1 – QUARTERLY PERFORMANCE**

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q2FY19	QoQ (%)	H1FY20	H1FY19	YoY (%)
<b>Total revenues</b>	<b>2,695</b>	<b>2,472</b>	<b>9.0</b>	<b>2,562</b>	<b>5.2</b>	<b>5,256</b>	<b>4,948</b>	<b>6.2</b>
Operating expenses	1,928	1,832	5.3	1,852	4.1	3,781	3,699	2.2
% of sales	71.6	74.1	(255bps)	72.3	(74bps)	71.9	74.8	(283bps)
Employee expenses	263	217	21.1	254	3.8	517	424	21.7
% of sales	9.8	8.8	97bps	9.9	(13bps)	9.8	8.6	125bps
Other expenses	196	150	30.9	160	22.5	356	282	26.2
% of sales	7.3	6.1	122bps	6.2	103bps	6.8	5.7	107bps
Total expenditure	2,388	2,199	8.6	2,266	5.4	4,653	4,406	5.6
<b>EBITDA</b>	<b>307</b>	<b>273</b>	<b>12.5</b>	<b>296</b>	<b>3.8</b>	<b>603</b>	<b>542</b>	<b>11.2</b>
EBITDA margin (%)	11.4	11.0	36bps	11.6	(15bps)	11.5	11.0	51bps
Depreciation	18	17	8.2	18	4.5	36	32	14.3
<b>EBIT</b>	<b>289</b>	<b>256</b>	<b>12.8</b>	<b>278</b>	<b>3.7</b>	<b>567</b>	<b>511</b>	<b>11.0</b>
Interest expenses	3	11	(76.9)	2	8.7	5	23	(78.9)
Other income	16	8	98.8	7	120.5	23	13	77.3
<b>PBT</b>	<b>302</b>	<b>253</b>	<b>19.4</b>	<b>283</b>	<b>6.7</b>	<b>586</b>	<b>501</b>	<b>16.8</b>
PBT margin (%)	11.2	10.2	98bps	11.1	16bps	11.1	10.1	101bps
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	41	91	(54.4)	99	(58.4)	141	178	(20.9)
Tax rate (%)	13.7	35.8	(2,212bps)	35.0	(2,135bps)	24.0	35.4	(1,143bps)
<b>Reported PAT</b>	<b>261</b>	<b>163</b>	<b>60.5</b>	<b>184</b>	<b>41.8</b>	<b>445</b>	<b>324</b>	<b>37.5</b>
Adjustment	-	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>261</b>	<b>163</b>	<b>60.5</b>	<b>184</b>	<b>41.8</b>	<b>445</b>	<b>324</b>	<b>37.5</b>
Adjusted PAT margin (%)	9.7	6.6	311bps	7.2	250bps	8.5	6.5	192bps
<b>Adjusted EPS</b>	<b>6.8</b>	<b>4.2</b>	<b>60.5</b>	<b>4.8</b>	<b>41.8</b>	<b>11.6</b>	<b>8.5</b>	<b>37.5</b>

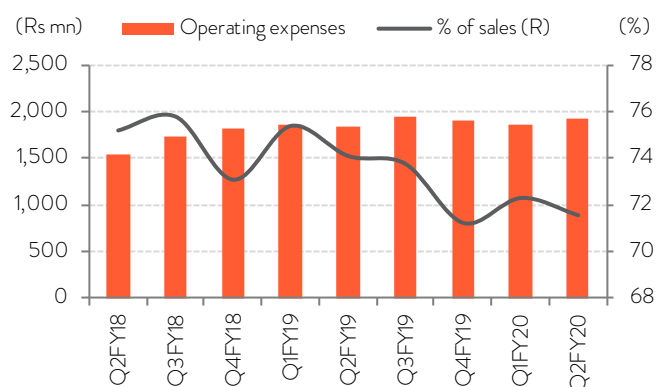
Source: Company, BOBCAPS Research

**FIG 2 – TOPLINE GROWTH INCHED UP, BUT REMAINED IN SINGLE DIGITS**



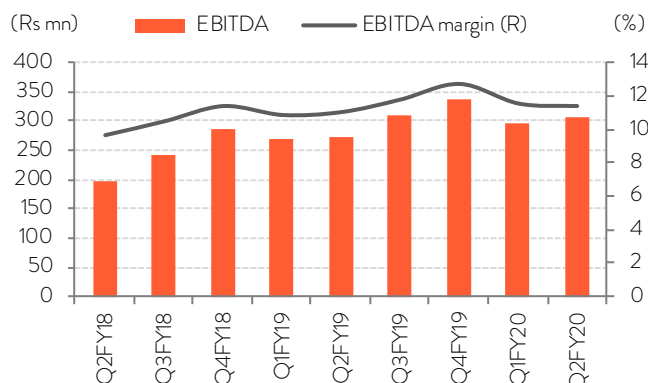
Source: Company, BOBCAPS Research

**FIG 3 – OPERATING EXPENSES AS A PERCENTAGE OF SALES DECLINED 255BPS**



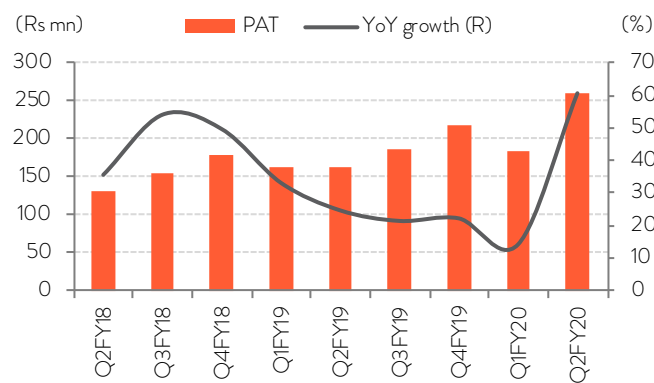
Source: Company, BOBCAPS Research

**FIG 4 – EBITDA MARGIN EXPANDED 36BPS YOY TO 11.4%**



Source: Company, BOBCAPS Research

**FIG 5 – LOWER TAX RATES PROPELLED PAT BY 61% YOY**



Source: Company, BOBCAPS Research

### Earnings call takeaways

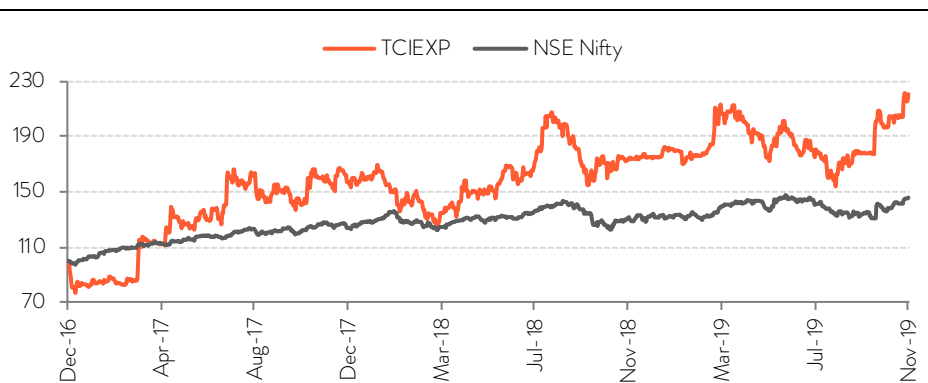
- Tonnage growth remained subdued at ~7% YoY in Q2FY20, though ticked up sequentially (+2.5% in Q1FY20). Volumes from corporate client accounts are down across most industry verticals owing to sluggish manufacturing activity.
- Volume from South India was sluggish while North India and Gujarat generated robust volumes. Utilisation of hired trucks stood at 85.5% in Q2FY20.
- Given the demand slowdown, management has pared its topline guidance for FY20 to low double digits from 17-18% previously, implying a 13-14% growth in H2FY20.
- Expects SME segment to remain a key growth driver. Pharma, retail, textile, auto spare parts are verticals which can witness uptick in growth in H2FY20.
- Has opened 15 new branches in metro cities and tier-I, aiming to tap higher number of SMEs. Total branch count stands at 800+. Plans to add another 40 branches in H2FY20.
- Construction at the Gurgaon (200,000 sq ft) and Pune (150,000 sq ft) sorting centers are on track. Commercial operations are expected to begin in Q1FY21.
- Capex outlay in H1 stands at Rs 70mn (Rs 50mn in Q2), mainly towards sorting center and IT infrastructures. FY20 capex pegged at Rs 800mn, implying a large capex outgo in H2FY20 mainly towards construction work in the Gurgaon and Pune sorting centres.

## Valuation methodology

After an in line Q2, we largely maintain our earnings estimates for FY20-22. Challenging demand environment are likely to continue to weigh on volume growth in H2FY20. Without sharp recovery in topline growth, EBITDA margin expansion is also likely to be constrained in H2. Considering near-term growth headwinds, we pare our one-year forward P/E multiple to 23x from 26x earlier. Rolling over valuations, we move to a revised Mar'21 TP of Rs 855 vs. Rs 840. The stock has rallied ~40% since our last [result review note on 31<sup>st</sup> July](#) without material change in fundamentals, prompting us to downgrade ratings to ADD from BUY earlier.

We remain constructive on TCIEXP's long-term prospects. We expect the company to benefit from (1) multiple structural industry tailwinds – implementation of GST/ e-way bill, shift in customer preference towards pan-India express players; (2) focus on the fast growing surface express and B2B segments; and (3) a wide geographic reach – ~95% of all pin codes in India, 40,000+ pickup and delivery locations.

**FIG 6 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- ROCE dilution after transitioning to owned sorting centers if cost synergies are lower than expected
- Prolonged slowdown in key end-user industry verticals
- Increased competitive intensity from pan-India players

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>8,851</b>	<b>10,238</b>	<b>11,174</b>	<b>13,056</b>	<b>15,331</b>
EBITDA	907	1,190	1,320	1,616	1,993
Depreciation	52	65	89	111	139
EBIT	854	1,125	1,231	1,506	1,854
Net interest income/(expenses)	(38)	(38)	(7)	0	0
Other income/(expenses)	21	32	43	46	59
Exceptional items	0	0	0	0	0
EBT	838	1,119	1,267	1,552	1,913
Income taxes	254	390	324	397	490
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>584</b>	<b>728</b>	<b>942</b>	<b>1,155</b>	<b>1,423</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>584</b>	<b>728</b>	<b>942</b>	<b>1,155</b>	<b>1,423</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	646	724	918	1,073	1,260
Other current liabilities	240	200	218	255	299
Provisions	35	41	45	52	62
Debt funds	407	98	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	77	77	77	77	77
Reserves & surplus	1,992	2,595	3,396	4,378	5,516
Shareholders' fund	2,068	2,672	3,473	4,454	5,593
<b>Total liabilities and equities</b>	<b>3,395</b>	<b>3,735</b>	<b>4,654</b>	<b>5,835</b>	<b>7,214</b>
Cash and cash eq.	122	171	153	293	585
Accounts receivables	1,544	1,631	1,837	2,146	2,520
Inventories	0	0	0	0	0
Other current assets	101	128	140	163	192
Investments	0	13	13	13	13
Net fixed assets	1,602	1,716	2,440	3,129	3,791
CWIP	0	14	0	0	0
Intangible assets	18	15	15	15	15
Deferred tax assets, net	(43)	(55)	(55)	(55)	(55)
Other assets	52	102	112	130	153
<b>Total assets</b>	<b>3,395</b>	<b>3,735</b>	<b>4,654</b>	<b>5,835</b>	<b>7,214</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	636	794	1,032	1,265	1,562
Interest expenses	38	38	7	0	0
Non-cash adjustments	9	12	0	0	0
Changes in working capital	44	(122)	(10)	(153)	(185)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>727</b>	<b>722</b>	<b>1,030</b>	<b>1,113</b>	<b>1,377</b>
Capital expenditures	(622)	(189)	(800)	(800)	(800)
Change in investments	0	(13)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(622)</b>	<b>(202)</b>	<b>(800)</b>	<b>(800)</b>	<b>(800)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	90	(308)	(98)	0	0
Interest expenses	(38)	(38)	(7)	0	0
Dividends paid	(129)	(134)	(141)	(173)	(285)
Other financing cash flows	5	10	0	0	0
<b>Cash flow from financing</b>	<b>(71)</b>	<b>(471)</b>	<b>(247)</b>	<b>(173)</b>	<b>(285)</b>
<b>Changes in cash and cash eq.</b>	<b>34</b>	<b>49</b>	<b>(18)</b>	<b>139</b>	<b>293</b>
<b>Closing cash and cash eq.</b>	<b>122</b>	<b>171</b>	<b>153</b>	<b>293</b>	<b>585</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	15.3	19.0	24.6	30.2	37.2
Adjusted EPS	15.3	19.0	24.6	30.2	37.2
Dividend per share	2.8	3.0	3.7	4.5	7.4
Book value per share	54.0	69.8	90.7	116.3	146.0

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.5	3.0	2.7	2.3	2.0
EV/EBITDA	33.9	25.9	23.0	18.8	15.1
Adjusted P/E	52.2	41.8	32.3	26.4	21.4
P/BV	14.7	11.4	8.8	6.8	5.5

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	69.7	65.1	74.4	74.4	74.4
Interest burden (PBT/EBIT)	98.0	99.5	102.9	103.1	103.2
EBIT margin (EBIT/Revenue)	9.7	11.0	11.0	11.5	12.1
Asset turnover (Revenue/Avg TA)	4.0	3.8	3.5	3.2	3.0
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.0	1.0	1.0
Adjusted ROAE	31.8	30.7	30.7	29.1	28.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	18.0	15.7	9.1	16.9	17.4
EBITDA	46.5	31.3	11.0	22.4	23.3
Adjusted EPS	55.8	24.7	29.4	22.5	23.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.2	11.6	11.8	12.4	13.0
EBIT margin	9.7	11.0	11.0	11.5	12.1
Adjusted profit margin	6.6	7.1	8.4	8.8	9.3
Adjusted ROAE	31.8	30.7	30.7	29.1	28.3
ROCE	37.4	41.9	39.9	38.6	37.7
<b>Working capital days (days)</b>					
Receivables	64	58	60	60	60
Inventory	0	0	0	0	0
Payables	30	29	34	34	34
<b>Ratios (x)</b>					
Gross asset turnover	6.1	5.5	4.7	4.1	3.9
Current ratio	1.9	2.0	1.8	1.9	2.0
Net interest coverage ratio	22.7	29.8	167.1		
Adjusted debt/equity	0.1	0.0	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: TCI EXPRESS (TCIEXP IN)



B – Buy, A – Add, R – Reduce, S – Sell

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