

BUY

TP: Rs 930 | ▲ 18%

TCI EXPRESS

| Logistics

| 03 November 2020

Stellar operational performance amid weak externalities

An effective asset-light model, price hikes and efficiency gains enabled TCI Express (TCIEXP) to deliver a strong EBITDA margin beat (15.3% vs. 11.5% est.), negating a 21% YoY topline fall (est. -15%). Though TCIEXP underperformed peer Blue Dart (topline +8% YoY) due to a different modal and client mix, we expect growth to rebound in H2 with sustained margin momentum. The strong operating performance and easing demand challenges prompt us to raise our target P/E to 27x (vs. 25x). Rolling over, we have a new Dec'21 TP of Rs 930 (vs. Rs 840).

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Topline disappoints, expect rebound in H2: TCIEXP's volumes fell 24% YoY as the lingering impact of lockdowns affected its clients in the early part of Q2.

The company managed to eke out a 3% realisation gain, underscoring its pricing power. SME clients has grown faster than large corporates in Q2, but the latter are expected to rebound soon. Per management, economic activity continues to improve sequentially, aiding flat YoY revenue in Sep'20 and single digit growth in Oct'20. This gradual rebound coupled with positive festive demand trends and a benign base should drive our 13% YoY growth assumption in H2.

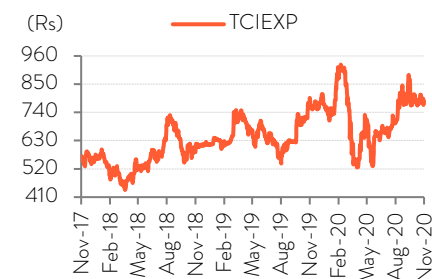
Margin juggernaut rolls on: Gross margins expanded 375bps YoY aided by higher realisation, route optimisation, operational efficiency, and an asset-light model. This together with a tight leash on overheads – staff/other expenses down 16%/29% YoY – drove a 6% YoY increase in EBITDA and a 390bps rise in margin to 15.3%. PAT declined 10% YoY due to higher tax rates. With growth returning, the company is confident of maintaining its margin profile as a higher topline absorbs the slight increase in salaries from Q3 onward.

TP raised: We trim our FY22/FY23 EPS estimates by ~1% each but raise our target P/E to 27x (vs. 25x) on reduced demand uncertainty. Rolling valuations forward to Dec'22, our TP stands revised to Rs 930 vs. Rs 840 earlier.

Ticker/Price	TCIEXP IN/Rs 787
Market cap	US\$ 404.8mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 949/Rs 456
Promoter/FPI/DII	67%/2%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,238	10,320	8,716	10,899	12,685
EBITDA (Rs mn)	1,190	1,213	1,072	1,553	1,863
Adj. net profit (Rs mn)	728	891	777	1,150	1,380
Adj. EPS (Rs)	19.0	23.2	20.3	30.0	36.0
Adj. EPS growth (%)	24.7	22.3	(12.7)	47.9	20.0
Adj. ROAE (%)	30.7	29.5	21.1	25.8	25.2
Adj. P/E (x)	41.4	33.9	38.8	26.2	21.9
EV/EBITDA (x)	25.5	24.9	27.9	19.1	15.9

Source: Company, BOBCAPS Research

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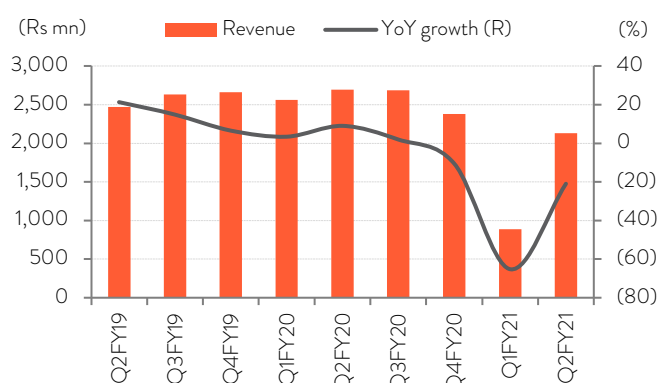


FIG 1 – QUARTERLY PERFORMANCE

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	2,130	2,695	(21.0)	887	140.0	3,017	5,256	(42.6)
Operating expenses	1,444	1,928	(25.1)	578	149.8	2,023	3,781	(46.5)
% of sales	67.8	71.6	(373bps)	65.2	266bps	67.0	71.9	(488bps)
Employee expenses	221	263	(16.2)	187	17.8	408	517	(21.1)
% of sales	10.4	9.8	59bps	21.1	(1,074bps)	13.5	9.8	369bps
Other expenses	139	196	(29.1)	102	36.7	241	356	(32.4)
% of sales	6.5	7.3	(75bps)	11.4	(493bps)	8.0	6.8	120bps
Total expenditure	1,804	2,388	(24.4)	867	108.0	2,671	4,653	(42.6)
EBITDA	326	307	6.0	20	1,503.9	346	603	(42.6)
EBITDA margin (%)	15.3	11.4	389bps	2.3	1,300bps	11.5	11.5	(1bps)
Depreciation	22	18	17.9	21	2.4	43	36	19.2
EBIT	304	289	5.3	(1)	NM	303	567	(46.6)
Interest expenses	3	3	24.0	1	158.3	4	5	(10.4)
Other income	15	16	(9.3)	15	(0.7)	29	23	25.2
PBT	315	302	4.3	13	2,403.2	328	586	(44.0)
PBT margin (%)	14.8	11.2	359bps	1.4	1339bps	10.9	11.1	(27bps)
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Income tax	81	41	94.9	3	2,267.6	84	141	(40.3)
Tax rate (%)	25.5	13.7	1,186bps	27.0	(146bps)	25.6	24.0	159bps
Reported PAT	235	261	(10.0)	9	2,453.3	244	445	(45.2)
Adjustment	-	-	-	-	-	-	-	-
Adjusted PAT	235	261	(10.0)	9	2,453.3	244	445	(45.2)
Adjusted PAT margin (%)	11.0	9.7	135bps	1.0	999bps	8.1	8.5	(38bps)
Adjusted EPS	6.1	6.8	(10.0)	0.2	2,453.3	6.4	11.6	(45.2)

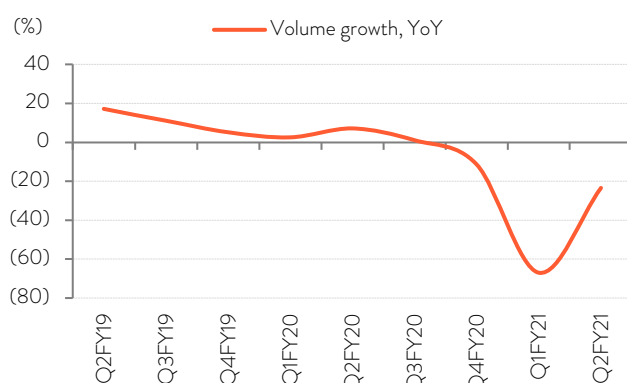
Source: Company, BOBCAPS Research

FIG 2 – REVENUE DROPPED 21% YOY IN Q2FY21...

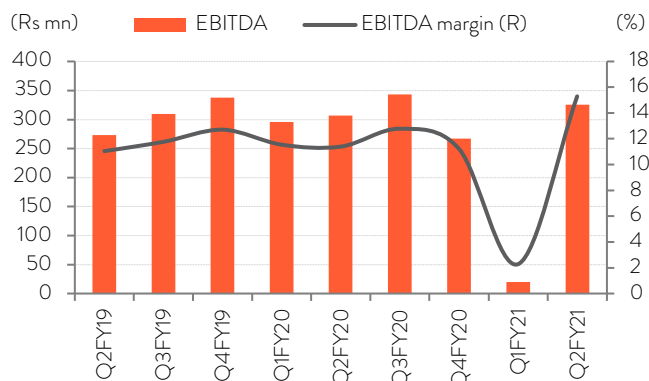


Source: Company, BOBCAPS Research

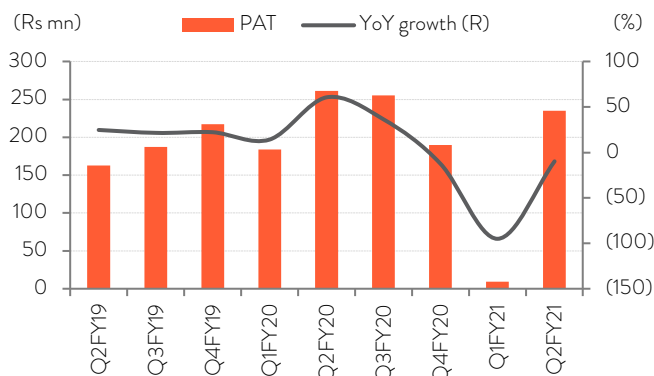
FIG 3 – ...LED BY A 23.5% DROP IN TONNAGE



Source: Company, BOBCAPS Research

FIG 4 – STRONG GROSS MARGIN EXPANSION DROVE 390BPS EBITDA MARGIN EXPANSION


Source: Company, BOBCAPS Research

FIG 5 – PAT CONTRACTED 10% YOY DUE TO HIGHER TAX RATE


Source: Company, BOBCAPS Research

Earnings call takeaways

- Q2FY21 tonnage contracted 23.5% YoY to 180k tonnes, implying a ~3.3% increase in realisation. Tonnage in the same quarter last year was 235k tonnes.
- Demand continues to improve sequentially, with September nearing pre-Covid levels of activity and October surpassing year-ago revenue levels. Economic recovery has been broad-based across client segments.
- TCIEXP expects to report YoY growth in H2FY21 though the company has not provided any revenue guidance.
- The SME client segment has grown faster than the large corporate segment as supply-side disruptions were higher for the latter, as per management. Accordingly, SME share in total revenue has increased to 55% from the typical levels of 50%. The revenue mix is expected to gradually revert to mean, with demand from corporate clients reviving in H2.
- Prices have been increased by ~3% across 30-35% of customers. The company plans to extend the hike to other customers as well, resulting in a ~3% rate increase for FY21.
- Owing to tight control over fixed costs, staff costs reduced 16% YoY to Rs 221mn, while other expenses dived 29% YoY to Rs 139mn. Staff costs may go up a bit in H2FY21 as the company is providing salary hikes and festive bonuses to employees in Q3. Total fixed costs are likely to remain lower YoY.
- TCIEXP has incurred capex of Rs 260mn in H1FY21 towards the construction of two new sorting centres in Pune and Gurgaon. The former is likely to be completed by Q3, while work on the Gurgaon facility should conclude by FY21-end. It is planning additional capex of Rs 500mn in FY21.

- The company has plans of investing Rs 2bn towards developing new sorting centres in Chennai, Nagpur, Mumbai and Indore. It expects the ROCE profile to remain steady as increased turnover will compensate for the higher capital employed.
- Cash generation remained strong in H1FY21 with period-end cash balance at Rs 870mn.
- The company is working closely with the government to participate in Covid-19 vaccine logistics.

Valuation methodology

We prune our FY21/FY22/FY23 revenue estimates by 7.5% each to bake in the below-expected Q2FY21 topline. Our earnings estimates stand reduced by a lower 0.5%/1.4%/1.7% as we raise EBITDA margin forecasts to factor in consistent outperformance over the past several quarters.

The impact of our slight earnings cut on valuations is negated by (1) an increase in target P/E multiple to 27x from 25x as demand uncertainty has reduced with the uptick in economic activity (backed by high frequency indicators such as e-way bill generation and port traffic) and strong margin momentum; and (2) roll over of valuations to Dec'22. Consequently, our Dec'21 target price stands revised to Rs 930 vs. Rs 840 earlier. Retain BUY.

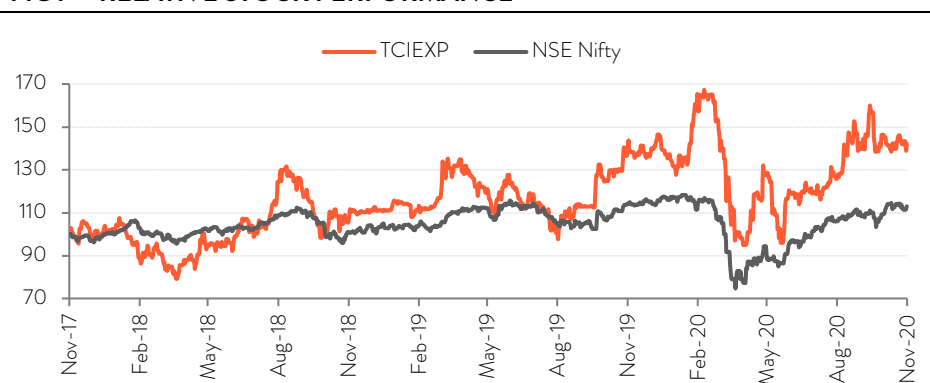
Notwithstanding severe external challenges on the demand front, TCIEXP has posted a strong operating performance in H1FY21, which is a testament to its superior asset-light business model. We remain positive on the company's long-term prospects and also expect it to benefit from (1) multiple long-term structural industry tailwinds, viz. a rising share of surface express over air express and a shift in customer preference towards pan-India express players, (2) its focus on the fast growing surface express and B2B segments, and (3) a wide geographic reach.

FIG 6 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	9,427	8,716	(7.5)	11,788	10,899	(7.5)	13,720	12,685	(7.5)
EBITDA	1,070	1,072	0.1	1,591	1,553	(2.4)	1,907	1,863	(2.3)
EBITDA margin (%)	11.4	12.3	94	13.5	14.2	75	13.9	14.7	79
PAT	781	777	(0.5)	1,166	1,150	(1.4)	1,404	1,380	(1.7)
EPS (Rs)	20.4	20.3	(0.5)	30.4	30.0	(1.4)	36.6	36.0	(1.7)

Source: Company, BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Lingering impact of Covid-19 pandemic on economic activity
- Sharp decline in utilisation levels due to lower volumes and corresponding dilution in gross margin
- Protracted slowdown in key end-user industry verticals
- Increased competitive intensity from pan-India players

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	10,238	10,320	8,716	10,899	12,685
EBITDA	1,190	1,213	1,072	1,553	1,863
Depreciation	65	78	88	108	126
EBIT	1,125	1,135	984	1,445	1,736
Net interest income/(expenses)	(38)	(9)	(7)	(2)	0
Other income/(expenses)	32	44	66	90	104
Exceptional items	0	0	0	0	0
EBT	1,119	1,170	1,043	1,533	1,840
Income taxes	390	279	266	383	460
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	728	891	777	1,150	1,380
Adjustments	0	0	0	0	0
Adjusted net profit	728	891	777	1,150	1,380

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	724	620	549	746	869
Other current liabilities	200	195	164	206	239
Provisions	41	47	40	49	58
Debt funds	98	39	28	0	0
Other liabilities	0	1	1	1	0
Equity capital	77	77	77	77	77
Reserves & surplus	2,595	3,296	3,918	4,838	5,942
Shareholders' fund	2,672	3,373	3,995	4,915	6,019
Total liabilities and equities	3,735	4,274	4,777	5,917	7,184
Cash and cash eq.	171	412	451	519	774
Accounts receivables	1,631	1,658	1,552	1,792	2,085
Inventories	0	0	0	0	0
Other current assets	128	152	128	160	187
Investments	13	9	9	9	9
Net fixed assets	1,716	1,833	2,556	3,348	4,021
CWIP	14	111	0	0	0
Intangible assets	15	22	22	22	22
Deferred tax assets, net	(55)	(41)	(41)	(41)	(41)
Other assets	102	119	101	109	127
Total assets	3,735	4,274	4,777	5,917	7,184

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	794	969	865	1,258	1,507
Interest expenses	38	9	7	2	0
Non-cash adjustments	12	(14)	0	0	0
Changes in working capital	(122)	(171)	40	(31)	(174)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	722	793	912	1,228	1,333
Capital expenditures	(189)	(299)	(700)	(900)	(800)
Change in investments	(13)	4	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(202)	(295)	(700)	(900)	(800)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(308)	(59)	(11)	(28)	0
Interest expenses	(38)	(9)	(7)	(2)	0
Dividends paid	(134)	(180)	(155)	(230)	(276)
Other financing cash flows	9	(10)	0	0	0
Cash flow from financing	(471)	(258)	(173)	(261)	(276)
Changes in cash and cash eq.	49	240	39	68	257
Closing cash and cash eq.	171	412	451	519	774

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.0	23.2	20.3	30.0	36.0
Adjusted EPS	19.0	23.2	20.3	30.0	36.0
Dividend per share	2.9	4.7	4.1	6.0	7.2
Book value per share	69.8	87.9	104.2	128.2	156.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.0	2.9	3.4	2.7	2.3
EV/EBITDA	25.5	24.9	27.9	19.1	15.9
Adjusted P/E	41.4	33.9	38.8	26.2	21.9
P/BV	11.3	8.9	7.6	6.1	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.1	76.1	74.5	75.0	75.0
Interest burden (PBT/EBIT)	99.5	103.1	106.0	106.1	106.0
EBIT margin (EBIT/Revenue)	11.0	11.0	11.3	13.3	13.7
Asset turnover (Revenue/Avg TA)	3.8	3.3	2.3	2.4	2.3
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	30.7	29.5	21.1	25.8	25.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	15.7	0.8	(15.5)	25.0	16.4
EBITDA	31.3	1.9	(11.6)	44.9	20.0
Adjusted EPS	24.7	22.3	(12.7)	47.9	20.0
Profitability & Return ratios (%)					
EBITDA margin	11.6	11.8	12.3	14.2	14.7
EBIT margin	11.0	11.0	11.3	13.3	13.7
Adjusted profit margin	7.1	8.6	8.9	10.6	10.9
Adjusted ROAE	30.7	29.5	21.1	25.8	25.2
ROCE	42.1	36.2	26.2	32.0	31.5
Working capital days (days)					
Receivables	58	59	65	60	60
Inventory	0	0	0	0	0
Payables	29	25	26	29	29
Ratios (x)					
Gross asset turnover	5.5	5.1	3.5	3.2	3.0
Current ratio	2.0	2.6	2.8	2.5	2.6
Net interest coverage ratio	29.8	126.1	145.8	678.6	NM
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

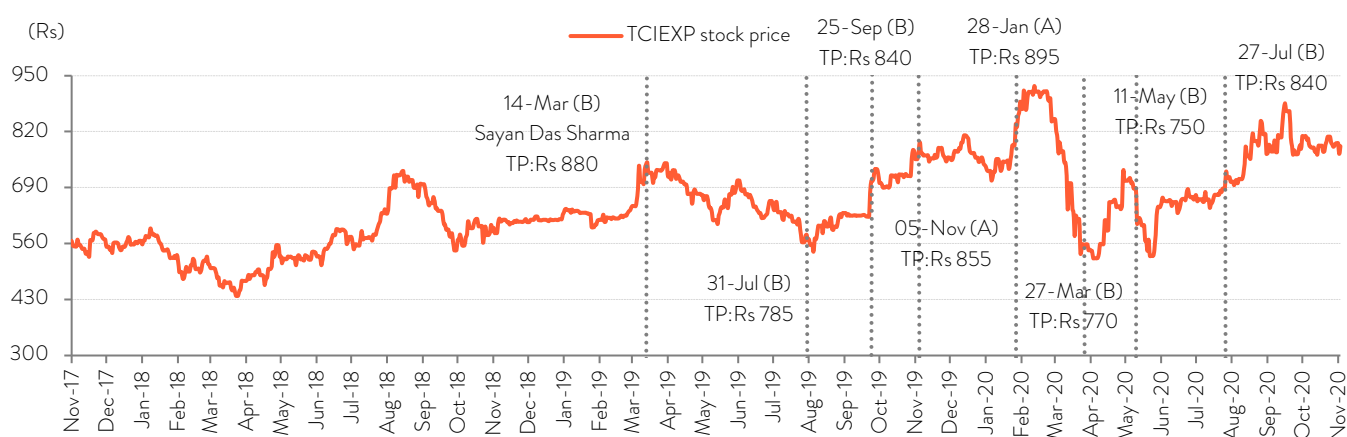
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): TCI EXPRESS (TCIEXP IN)



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

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