

HOLD

TP: Rs 1,531 | ▼ 4%

TCI EXPRESS

| Logistics

| 23 October 2021

Strong volume-led growth

- Robust volume growth in Q2 a reflection of improving macros. Network expansion and new sorting centre to sustain growth
- Rail express service launch aims to capture traffic from air services by using cargo space in passenger trains
- We raise FY22/FY23 EPS by 6% and roll forward to a new Sep'22 TP of Rs 1,531 (vs. Rs 1,421); retain HOLD as growth appears priced in

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Strong volume-led growth: TCIEXP reported Rs 340mn in Q2FY22 net income, up 45% YoY driven by a 28% increase in revenue. EBITDA margin improved 130bps to 16.6% due to higher capacity utilisation and efficiencies. On a sequential basis, net income rose 43% QoQ as revenue grew 23% and margin expanded 220bps. The increase in revenue was backed by strong demand-supply in key industries and SMEs as business activities normalised following the second Covid wave.

Launch of express rail to compete with air cargo: TCIEXP is offering rail express services to capture share from the more expensive air cargo segment. This involves using cargo space in passenger trains, which the company intends to expand from 25 routes to 100 routes by end-FY22.

Volumes and efficiency to spur earnings: We raise our volume growth assumption from 20% to 25% for FY22 considering the strong Q2 performance and improving macro indicators (such as e-way bills) and manufacturing indicators. TCIEXP's new sorting centre is also coming up in Gurugram (Haryana) by FY23.

Trading at peak multiples: Following a rally after the FY21 results, the stock is trading close to its two-year peak forward P/E and P/B multiples and is implying 10-year FCF growth of ~30% based on our reverse DCF analysis with a terminal growth estimate of 5%. We believe recovery in growth is in the price.

Retain HOLD: We raise FY22/FY23 EPS estimates by 6% each following the strong Q2 results and roll forward to a new Sep'22 DCF-based TP of Rs 1,531 (Rs 1,421 earlier). Our TP implies an FY23E P/E of 35x and P/B of 8.2x, a premium of 19% and 16% respectively to the two-year mean. We rate TCIEXP a HOLD as the recent stock rally factors in the high growth expectations. A key near-term downside driver for the stock would be below-estimated earnings growth whereas upside drivers include robust growth in manufacturing indicators in addition to strong results.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TCIEXP IN/Rs 1,602
Market cap	US\$ 820.5mn
Free float	33%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 1,747/Rs 761
Promoter/FPI/DII	67%/2%/10%

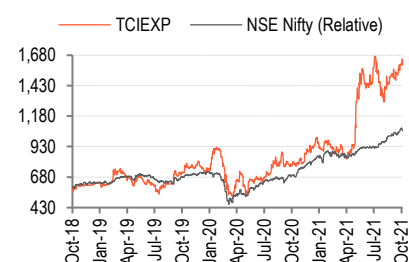
Source: NSE | Price as of 22 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	8,440	11,077	13,121
EBITDA (Rs mn)	1,343	1,903	2,309
Adj. net profit (Rs mn)	1,006	1,390	1,682
Adj. EPS (Rs)	26.2	36.2	43.8
Consensus EPS (Rs)	26.2	36.5	44.9
Adj. ROAE (%)	26.1	27.8	26.2
Adj. P/E (x)	61.2	44.3	36.6
EV/EBITDA (x)	45.6	32.0	26.1
Adj. EPS growth (%)	12.9	38.2	21.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenue (post indirect taxes)	2,734	2,130	28.4	2,229	22.7	4,964	3,017	64.5
Cost of Revenue	(1,861)	(1,444)	28.9	(1,523)	22.2	(3,384)	(2,023)	67.3
Gross Profit	873	685	27.5	706	23.6	1,580	994	58.9
Gross Margin (%)	31.9	32.2	-	31.7	-	31.8	33.0	-
Employee Benefits Expense	(274)	(221)	24.1	(256)	7.1	(529)	(408)	29.8
Depreciation & Amortization	(24)	(22)	8.8	(22)	5.8	(46)	(43)	7
Other Expense	(147)	(139)	5.8	(130)	13.1	(277)	(241)	15.1
Other Income	0	0	-	0	-	0	0	-
EBIT	429	304	41.2	299	43.7	728	303	140.1
EBIT margin (%)	15.7	14.3	-	13.4	-	14.7	10.0	-
Interest Income	24	15	61.6	16	43.9	40	29	36.5
Interest Expense	(3)	(3)	(3.2)	(1)	172.7	(4)	(4)	(4.7)
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	0	0	-	0	-	0	0	-
Forex	0	0	-	0	-	0	0	-
Total Financials	21	12	79.1	15	34.6	36	25	43.6
Income after financial items	450	315	42.5	314	43.3	763	328	132.7
Margin (%)	16.4	14.8	-	14.1	-	15.4	10.9	-
Associate Income	0	0	-	0	-	0	0	-
Pretax income	450	315	42.5	314	43.3	763	328	132.7
Non recurring	0	0	-	0	-	0	0	-
Non recurring expense	0	0	-	0	-	0	0	-
Non recurring income	0	0	-	0	-	0	0	-
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	450	315	42.5	314	43.3	763	328	132.7
Taxation	0	0	-	0	-	0	0	-
Current	(108)	(78)	37.8	(75)	43.0	(183)	(81)	127
% of pretax income before Associates	24.0	24.7	-	0.0	-	47.9	44.6	-
Deferred	(2)	(3)	(32)	(1)	70.0	(3)	(3)	(20.6)
% of pretax income before Associates	0	1	-	0	-	1	8	-
Total	(109)	(81)	35.7	(76)	43.3	(185)	(84)	121.0
% of pretax income before Associates	24	26	(4.8)	24	0.0	49	53	0.0
Net income before minorities	340	235	44.9	238	43.3	578	244	136.8
Minorities	0	0	-	0	-	0	0	-
Net income after minorities	340	235	44.9	238	43.3	578	244	136.8
Core net income	340	235	44.9	238	43.3	578	244	136.8
Net margin (%)	12.4	11.0	-	10.7	-	11.6	8.1	-

Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY22/FY23 EPS estimates by 6% each as we increase volume growth assumptions for both years from 20% to 25%. Our estimates are close to consensus.

Following a rally in stock price after the FY21 results, TCIEXP is trading close to its peak two-year forward P/E and P/B multiples. The stock is implying 10-year FCF growth of ~30% based on a reverse DCF analysis with a terminal growth estimate of 5% – in line with the median and also following the EBITDA growth trajectory.

While we believe TCIEXP can register stronger growth in the next two years, the recent rally prices in the high growth expectations – we hence retain our HOLD rating. Our new Sep'22 TP of Rs 1,531 (Rs 1,421 earlier) implies an FY23E P/E of 35x and P/B of 8.2x, a premium of 19% and 16% respectively to the mean since listing. The increase in target price is driven by the hike in earnings estimates.

Fig 2 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	11.1	13.1	10.6	12.6	4.2	4.2
EBITDA	1.9	2.3	1.8	2.2	6.3	6.1
EBIT	1.8	2.2	1.7	2.0	6.7	6.6
Pretax Income	1.9	2.2	1.7	2.1	6.4	6.4
Net Income	1.4	1.7	1.3	1.6	6.4	6.4
EPS (Rs/sh)	36.2	43.8	34.0	41.2	6.4	6.4

Source: BOBCAPS Research

Fig 3 – BOBCAPS vs. Consensus

(Rs bn)	BOBCAPS		Bloomberg Consensus		Difference (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	11.1	13.1	11.1	13.0	(0.6)	1.1
EBITDA	1.9	2.3	1.9	2.4	(2.0)	(2.0)
EBIT	1.8	2.2	1.9	2.3	(4.1)	(6.3)
Pretax Income	1.9	2.2	1.8	2.2	6.0	2.9
Net Income	1.4	1.7	1.4	1.7	(0.8)	(2.5)
EPS (Rs)	36.2	43.8	36.5	44.9	(0.8)	(2.5)

Source: Company, BOBCAPS Research

We have valued the company based on a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate factors in the risk-free rate as of end Sep'21, gearing and estimated beta as of end Sep'21 (based on two-year weekly returns).

Fig 4 – DCF assumptions

Variable	Assumption	Basis
Risk Free Rate (%) (A)	6.2	Indian 10-year TB yield as of end-Sep'21
Equity Risk Premium (%) (B)	6.9	NYU Stern India equity risk premium
Beta (C)	1.0	Weekly returns over 2 years as of end-Sep'21
Cost of Equity (%) (D) = A + B x C	12.9	
Cost of Debt (E)	9.0	
Marginal Tax Rate (%) (F)	25.2	
Post-Tax Cost of Debt (%) (G) = E x (1-F)	6.73	
Current Debt to Equity (2021) (H)	0.00	
WACC (I) = (1 x D + H x G)/(1 + H)	12.9	
	Stage 1	Stage 2
FCF CAGR (%)	63.5	30.0
		Stage 3 (Terminal)
		5.0

Source: BOBCAPS Research

Fig 5 – Target price: Implied multiples

Multiples	Target Price	Current Price	Consensus 12M Forward 2Y Mean	Consensus 2Y Range	Variance vs. TCIEXP 2Y historical mean (%)
P/E FY23E	35.0	36.5	29.5	17 - 44.6	18.6
EV/EBITDA FY23E	24.2	25.3	NA	NA	NA
P/B FY23E	8.2	8.5	7.1	5.9 - 10.9	15.7

Source: Bloomberg, BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS CAGR FY21-23E (%)	ROIC (%)		ROE (%)		Target P/E FY23E (x)
					FY22E	FY23E	FY22E	FY23E	
Allcargo Logistics	AGLL IN	ADD	135	34	3.5	3.4	12.4	14.9	8.72
Container Corp of India	CCRI IN	SELL	521	41	8.1	12.0	8.8	11.6	24.42
Mahindra Logistics	MAHLOG IN	BUY	711	111	20.9	28.5	16.1	20.5	34.88
TCI Express	TCIEXP IN	HOLD	1421	25	32.1	34.8	26.4	25.1	34.53
Transport Corp of India	TRPC IN	HOLD	431	14	10.3	11.3	13.5	14.6	16.00
VRL Logistics	VRL IN	BUY	381	72	13.2	19.0	14.7	17.5	25.34

Source: BOBCAPS Research

Fig 7 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Volume YoY (%)	(20.2)	25.0	15.0	15.0
ASP YoY (%)	2.5	5.0	3.0	3.0
Freight Cost YoY (%)	0.0	7.0	3.0	3.0
Volume ('000 tonnes)	655	838	963	1,108
ASP (Rs per tonne)	12,597	13,227	13,624	14,032

Source: Company, BOBCAPS Research

Key risks

- Key upside risks to our estimates include faster-than-expected earnings growth from higher volumes, price increases or efficiency gains.
- Key downside risks include a drop in earnings due to lower volume growth, change in regulations related to the use of commercial vehicles, higher competition in the organised sector and a shift to rail post completion of the dedicated freight corridor.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Allcargo Logistics	AGLL IN	0.9	272	135	ADD
Container Corp of India	CCRI IN	5.5	680	521	SELL
Mahindra Logistics	MAHLOG IN	0.7	690	711	BUY
TCI Express	TCIEXP IN	0.8	1,602	1,531	HOLD
Transport Corp of India	TRPC IN	0.6	584	431	HOLD
VRL Logistics	VRL IN	0.4	375	381	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Oct 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	10,320	8,440	11,077	13,121	15,542
EBITDA	1,213	1,343	1,903	2,309	2,798
Depreciation	(78)	(90)	(125)	(150)	(161)
EBIT	1,135	1,254	1,778	2,159	2,637
Net interest inc./(exp.)	(9)	(8)	3	12	23
Other inc./(exp.)	44	77	77	77	77
Exceptional items	0	0	0	0	0
EBT	1,170	1,322	1,858	2,247	2,737
Income taxes	(279)	(316)	(468)	(566)	(689)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	891	1,006	1,390	1,682	2,048
Adjustments	0	0	0	0	0
Adjusted net profit	891	1,006	1,390	1,682	2,048

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	673	752	987	1,078	1,277
Other current liabilities	720	795	1,030	1,121	1,320
Provisions	0	0	0	0	0
Debt funds	28	10	0	0	0
Other liabilities	42	55	55	55	55
Equity capital	77	77	77	77	77
Reserves & surplus	3,296	4,262	5,575	7,117	8,997
Shareholders' fund	3,373	4,339	5,652	7,194	9,074
Total liab. and equities	4,315	5,437	6,974	8,609	10,687
Cash and cash eq.	412	859	1,442	2,724	3,948
Accounts receivables	1,658	1,695	2,124	1,977	2,342
Inventories	0	0	0	0	0
Other current assets	152	175	175	175	175
Investments	9	10	10	10	10
Net fixed assets	1,816	2,244	2,769	3,269	3,758
CWIP	0	0	0	0	0
Intangible assets	22	18	18	18	18
Deferred tax assets, net	0	0	0	0	0
Other assets	247	436	436	436	437
Total assets	4,315	5,437	6,974	8,609	10,687

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	816	1,189	1,240	1,982	1,943
Capital expenditures	(190)	(568)	(650)	(650)	(650)
Change in investments	0	0	0	0	0
Other investing cash flows	(412)	(424)	0	0	0
Cash flow from investing	(602)	(992)	(650)	(650)	(650)
Equities issued/Others	23	22	0	0	0
Debt raised/repaid	(59)	(20)	(10)	0	0
Interest expenses	0	0	68	67	66
Dividends paid	(213)	(77)	(77)	(139)	(168)
Other financing cash flows	239	67	19	72	102
Cash flow from financing	(9)	(8)	0	0	0
Chg in cash & cash eq.	(36)	146	583	1,281	1,224
Closing cash & cash eq.	412	859	1,442	2,724	3,948

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	23.2	26.2	36.2	43.8	53.3
Adjusted EPS	23.2	26.2	36.2	43.8	53.3
Dividend per share	4.0	4.0	7.2	8.8	10.7
Book value per share	87.9	113.1	147.4	187.6	236.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	6.0	7.3	5.5	4.6	3.8
EV/EBITDA	50.7	45.6	32.0	26.1	21.2
Adjusted P/E	69.1	61.2	44.3	36.6	30.1
P/BV	18.2	14.2	10.9	8.5	6.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	76.1	76.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	103.1	105.5	104.5	104.1	103.8
EBIT margin (EBIT/Revenue)	11.0	14.9	16.0	16.5	17.0
Asset turnover (Rev./Avg TA)	254.6	173.1	178.5	168.4	161.1
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.2	1.2	1.2
Adjusted ROAE	29.5	26.1	27.8	26.2	25.2

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	0.8	(18.2)	31.3	18.5	18.5
EBITDA	1.9	10.7	41.7	21.3	21.2
Adjusted EPS	22.1	12.9	38.2	21.0	21.8
Profitability & Return ratios (%)					
EBITDA margin	11.8	15.9	17.2	17.6	18.0
EBIT margin	11.0	14.9	16.0	16.5	17.0
Adjusted profit margin	8.6	11.9	12.5	12.8	13.2
Adjusted ROAE	29.5	26.1	27.8	26.2	25.2
ROCE	36.7	32.0	35.2	33.3	32.2
Working capital days (days)					
Receivables	59	73	70	55	55
Inventory	0	0	0	0	0
Payables	24	33	33	30	30
Ratios (x)					
Gross asset turnover	5.1	3.6	3.7	3.6	3.6
Current ratio	2.5	2.6	3.0	3.6	4.1
Net interest coverage ratio	127.5	160.7	(517.1)	(182.8)	(116.3)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

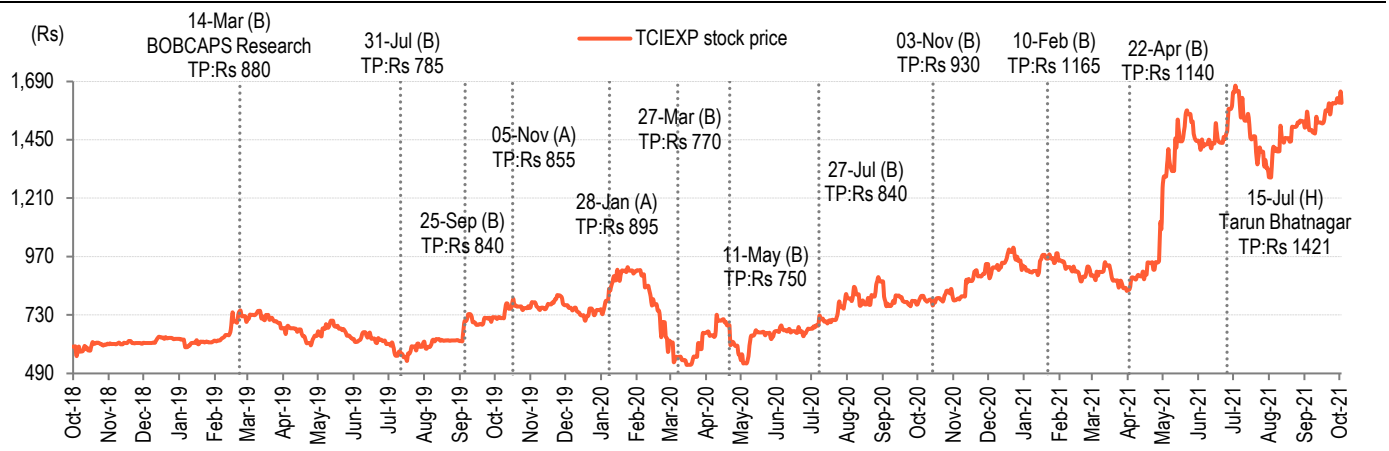
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TCI EXPRESS (TCIEXP IN)



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

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