

TCI Express Ltd.

Weak quarterly results, expect recovery ahead

TCI Express Q3FY23 results were below our expectations on all counts. Although company reported highest quarterly sales in Q3FY23 with revenue growth of ~9.6% YoY, sales was impacted due to decrease in utilisation levels in the month of October 2022 after the festive season and long weekend. Margins were impacted due to lower utilisation levels and uptick in advertisement and other administrative expenses. Sales growth in Q3FY23 was supported by higher volumes from both Corporate and SME customers. Capacity utilization for the quarter stood at ~83% which was down by ~200 bps both YoY & QoQ. Company reported volumes growth of ~10% YoY at ~2,53,000 MT. In 9mFY23 company reported volume growth of ~17% YoY at 7,30,000 MT. Company added 6 new branches in Q3FY23 & 28 in 9mFY23 mainly in the West & South region and expects to add ~12 new branches in Q4FY23.

Company incurred a capex of ~Rs 985 mn in 9mFY23 primarily spent towards the purchase of land in Kolkata (~Rs 200 mn) for setting up automated sorting center and land for new corporate office in Gurgaon (~Rs 450 mn) rest towards network expansion to serve rapidly growing market. Company expects to spend ~Rs 200-250 mn over next 2-3 years for construction of new corporate office. **Management has guided for revenue growth of ~16-17% YoY in FY23e (revised down from earlier guidance of ~18-20% YoY growth). It expects EBITDA margins for FY23e to be around FY22 levels.**

Mid to long-term outlook remains positive

However, management is confident of delivering good growth in FY24e with an improvement in margins. Margins are expected to improve by ~50-100 bps over next 2-3 years, due to improvement in operational efficiencies following automation of sorting centers and company's ability to take price increase. During FY22, company successfully commissioned India's first and largest automated B2B sorting center in Gurgaon, which will help in reduction in turnaround time and enhance operational efficiencies in the long run resulting into reduction of direct cost.

Long-term capex plan of Rs 5 bn over 5 years

- Company plans to spend a capex ~Rs 5 bn over next 5 years (FY23-FY28) which will be spent mainly towards new sorting centers, automation and enhancing technological capabilities.

Valuation

TCI Express is well positioned to capitalize on the growing opportunities in the domestic logistics space. The company to further strengthen its efficiencies and capabilities through automation, setting up new sorting, scaling up new services such as Rail express, C2C express, Pharma cold chain express. We remain positive on the company's mid-to-long term potential and have valued the stock at 40x FY25e EPS of Rs 52.0 (rollover from Sep'24e) to arrive at a target price of Rs 2,082, offering upside potential of ~21% from current levels. We have upgraded our rating to "Buy" from "Accumulate".

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23E	Var. (%)
Volume (In '000 tonne)	253	230	10.0	247	2.4		
Utilizations Rate (%)	83.0	85.0	-200 bps	85.0	-200 bps	-	-
Realizations (Rs/ kg)	12.4	12.5	-0.4	12.5	-0.9	-	-
Operating cost (Rs/ kg)	8.65	8.48	2.0	8.53	1.4		-
Total Income	3,144	2,869	9.6	3,099	1.5	3,324	-5.4
Operating Expenses	2,189	1,951	12.2	2,107	3.9		
SG&A Expenses	495	446	10.9	478	3.5		
EBITDA	461	472	-2.3	515	-10.5	558	-17.4
EBITDA margin (%)	14.7	16.4	-179 bps	16.6	-196 bps	16.8	-213 bps
Depreciation	43	22	92.4	35	22.9		
Interest	4	2	131.6	4	25.7		
Other Income	13	21	-37.2	19	-32.6		
PBT	427	468	-8.9	496	-14.0		
Tax Expenses	106	117	-9.2	121	-12.3		
-effective tax rate	24.9	25.0	-8 bps	24.5	47 bps		
Reported PAT	320	351	-8.8	375	-14.5	408	-21.5
PAT margin (%)	10.2	12.2	-206 bps	12.1	-190 bps	12.3	-209 bps

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	8,440	-18.2%	1,343	15.9%	1,006	12.9%	26.2	26.1%	26.1%	30.1	21.9
FY22	10,815	28.1%	1,747	16.2%	1,290	28.3%	33.5	26.6%	26.7%	48.6	35.3
FY23e	12,445	15.1%	1,926	15.5%	1,370	6.2%	35.9	25.0%	25.2%	47.9	34.0
FY24e	14,383	15.6%	2,333	16.2%	1,668	21.7%	43.7	26.7%	26.8%	39.3	27.9
FY25e	16,551	15.1%	2,751	16.6%	1,984	19.0%	52.0	25.8%	26.0%	33.0	23.5

Source: Company, SMIFS Institutional Research Estimates



Rating: Buy Upside: 21%
Current Price: 1,720 Target Price: 2,082

Earlier recommendation

Previous Rating: Accumulate
Previous Target Price: 2,168

Market data

Bloomberg:	TCIEXP IN
52-week H/L (Rs):	2,100/ 1,444
Mcap (Rs bn/USD bn):	65.9/ 0.8
Shares outstanding (mn):	38.3
Free float:	33.1%
Daily vol. (3M Avg. In '000):	35.7
Face Value (Rs):	2
Source: Bloomberg, SMIFS Research	

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	66.9	66.7	66.7	66.7
FII's	1.7	1.8	1.9	2.0
DII's	10.4	10.4	8.8	8.1
Public/others	21.0	21.1	22.6	23.2

Promoters Pledging (%)

Pledge	0.0	0.0	0.0	0.0
Source: BSE				

Price performance (%)*

	1M	3M	12M	36M
Nifty 50	-2.5	-2.0	1.9	47.6
Nifty 500	-3.3	-3.2	0.1	51.4
TCI Express	-4.1	-9.2	-11.5	93.3

*as on 31st Jan-2023; Source: AceEquity, SMIFS Research

Saurabh Ginodia

Senior Vice President-Institutional Equities
+91 98361 40444
Saurabh.ginodia@smifs.com

Q3FY23 – Key takeaways from the management call

Performance Highlights for Q3FY23

- ✓ Company reported highest quarterly revenue in Q3FY23 led by volume growth ~10% YoY. Growth was supported from improved business from both corporate as well as SME customers. Revenue mix was equal between SME's and corporate clients.
- ✓ **Capacity utilization for Q3FY23 stood at ~83% lower by ~200 bps both YoY & QoQ.** Volumes for Q3FY23 stood at ~2,53,000 MT & for 9mFY23 at ~7,30,000 MT. **We expect volume growth of ~14.5% YoY in FY23e. Further we expect volume growth of 15% & 14.5% YoY for FY24e and FY25e respectively.**

Guidance

- ✓ Management has guided for **revenue growth of ~16-17% YoY in FY23e (revised lower from earlier ~18-20% YoY growth).** Expect **EBITDA margins for FY23e to be in line with FY22 margins.**
- ✓ Management sounded confident of good growth in FY24e with an improvement in margins.
- ✓ It expects to improve EBITDA margins by ~50-100 bps YoY. Company targets to increase capacity utilizations every year.

Operationalized two automated sorting centers

- ✓ During Q4FY22, the company has **successfully commissioned India's first and largest automated B2B sorting center in Gurgaon**, named 'GIGA Sorting Center', spread over a 2 lakh-square-foot area. The **system will help in reducing truck halting time and dependence on labour.**
- ✓ The Pune sorting center is operational since June-2021 and company plans to finalize automation plan for the center in FY24. With this two sorting centers, the Company has **added over 3.5 lakh-square-foot areas in its sorting center capacity.**
- ✓ **Going forward company plans to open sorting center at Chennai, Kolkata, Mumbai, Ahmedabad, Nagpur etc**

Addition of new branches

- ✓ The company has **opened 6 new branches during Q3FY23 & total of 28 new branches in 9mFY23** mainly in West & South region to expand its presence to cater to the growing demand with industry-leading services. Management expects to add **~12 more branches in Q4FY23.**

New services

- ✓ **The three new services - Pharma Cold Chain Express, C2C Express and Rail Express, launched during FY22,** have received positive response from the customers. These services are aligned to company's growth as multi-model express delivery company in India. With Rail Express services, the Company is targeting to garner share of domestic Air Express business. **In Rail express service offering company has expanded its customer base from 250 to 1750 and presence from 10 routes to 125 routes since inception.**
- ✓ In 9mFY23, value added services contributed ~18% to the total revenues, which company **targets to increase the revenue share to ~25% by FY25.** These services have higher EBITDA margins and with increased share will help to improve the overall margins of the company.

Capex

- ✓ In **9mFY23 company has spent a capex of ~985 mn**, primarily towards the acquisition of land at Kolkata (for ~Rs 200 mn) for setting up new automated sorting center, and has also acquired land at Gurgaon for ~Rs 450 mn for construction of a new corporate office.

- ✓ The **long term planned capex over 5 years (FY23-FY28)** is **~Rs 5 bn**, which will be spent towards sorting center, automation and enhancing technological capabilities.

Price hike

- ✓ Company has not taken any price **increase in Q3FY23**.

Others

- ✓ During 9mFY23, the company generated strong '**cash flow from operations**' of **~Rs 954 mn**. Company continue to maintain strong CFO to EBIDTA ratio of ~65.4%.
- ✓ The board of directors has approved payment of second Interim dividend of Rs 3 per equity share. Total interim dividends aggregating to Rs 6 per equity share has been declared during FY23.
- ✓ The board of directors have approved incorporation of a wholly-owned subsidiary (WOS) company in the name of "TCI Express Pte. Ltd" (proposed name). The operations of the new WOS will be in line with company's vision that will enable the company to further address growth opportunities in logistics and will also establish international presence.

Buy-back offer –Update

- ✓ Board of Directors at its meeting held on May 27, 2022 have **approved a buy-back of up-to 3,65,853 (tentative) equity shares of the company being ~2.85% of the public holding for an aggregate amount not exceeding Rs 750 mn, with a price not exceeding Rs 2,050 per share. Promoter & promoter group have decided not to participate in the buy-back. This was approved by the shareholders of the company at the AGM held on August 3rd, 2022.**
- ✓ The company has successfully completed buy back 1,82,500 equity shares amounting to ~Rs 410 mn (including taxes) from August 18, 2022 (commencement date) till December 31, 2022. Out of the shares bought back 1,46,750 equity shares have been extinguished up to December 31, 2022.

Outlook and Valuation

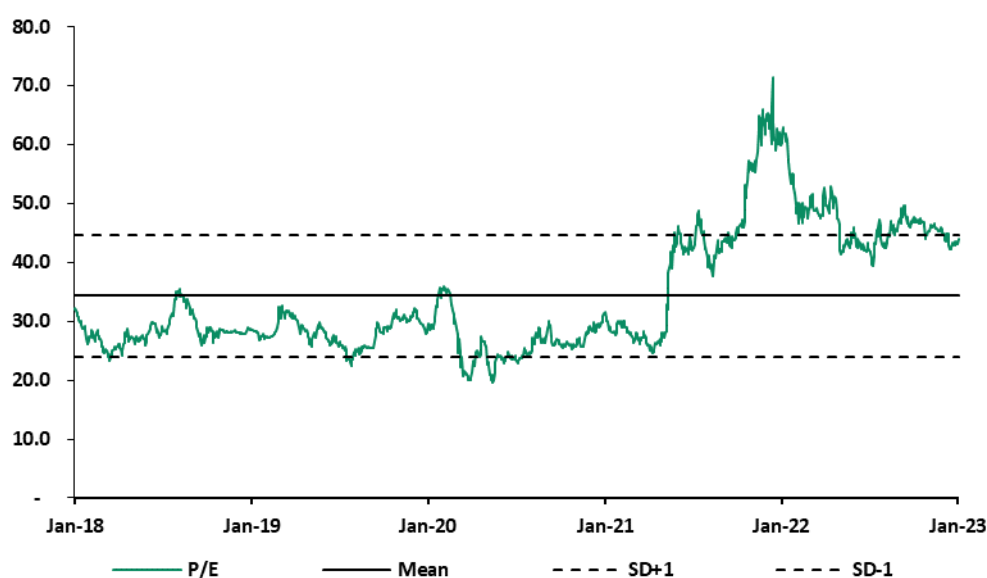
TCI Express is well positioned to capitalize on the growing opportunities with its asset light business model, value added service offerings and strong network. The company to further strengthen its efficiencies and capabilities by setting up new sorting centers, adding new branches and launch of new services. **We remain positive on the company's mid-to-long term potential.**

We have valued the stock at **40x FY25e EPS of Rs 52.0 (rollover from Sep'24e)** to arrive at a **target price of Rs 2,082**, offering upside of **~21% from current levels**. We have thus upgrade the rating on stock to **"Buy" from "Accumulate"**.

Key risks

- General slowdown in the economy.
- Slowdown in key industries verticals/ customer's business.
- Slowdown in SME sector.
- Unability to pass on any sharp fuel price increase.
- Increase in competition from organized/ un-organized players and railways.

Fig 1: TCI Express Ltd - PE Chart



Source: Company, SMIFS Institutional Research Estimates

Quarterly financials, operating metrics and key performance indicators

Fig 2: Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	2,798	2,229	2,734	2,869	2,982	2,904	3,099	3,144
Operating Expenses	1,869	1,523	1,861	1,951	1,994	2,010	2,107	2,189
Gross Profit	929	706	873	918	988	895	993	955
Employees Cost	233	256	274	277	293	309	309	312
Other Expenses	153	130	147	169	193	158	169	183
EBITDA	544	321	453	472	502	428	515	461
Depreciation	25	22	24	22	32	33	35	43
Interest	2	1	3	2	3	3	4	4
PBT from operations	517	297	426	448	468	392	476	414
Other Income	31	16	24	21	21	19	23	13
PBT	547	314	450	468	489	411	499	427
Tax	122	76	109	117	129	101	121	106
Current Tax	128	75	108	113	107	93	114	88
Deferred Tax charge/ (credit)	6	1	2	4	22	8	7	18
Income related to earlier years	-12	-	-	-	-	-	-	-
Tax rate (%)	22.2	24.3	24.3	25.0	26.4	24.5	24.3	24.9
Net Profit	426	238	340	351	359	310	378	320
Exceptional Items	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Adjusted PAT	426	238	340	351	359	310	378	320
EPS (In Rs)	11.1	6.2	8.8	9.1	9.3	8.1	9.8	8.3
YoY Growth (%)								
Revenue	17.6	151.2	28.4	9.3	6.6	30.3	13.3	9.6
EBITDA	103.9	1480.3	39.0	4.1	-7.7	33.4	13.7	-2.3
Reported PAT	124.0	2482.6	44.9	4.5	-15.6	30.5	11.0	-8.8
QoQ Growth (%)								
Revenue	6.6	-20.3	22.7	4.9	3.9	-2.6	6.7	1.5
EBITDA	19.9	-41.0	41.1	4.2	6.4	-14.8	20.3	-10.5
Reported PAT	26.7	-44.2	43.3	3.2	2.3	-13.7	21.9	-15.3
Margin (%)								
Gross	33.2	31.7	31.9	32.0	33.1	30.8	32.0	30.4
EBITDA	19.4	14.4	16.6	16.4	16.8	14.7	16.6	14.7
PAT	15.2	10.7	12.4	12.2	12.0	10.7	12.2	10.2
Operational KPIs								
Volume ('000 tonne)	225	175	220	230	235	230	247	253
Utilization (%)	86.5%	83.5%	85.5%	85.0%	85.0%	84.5%	85.0%	83.0%
Realizations (Rs/Kg)	12.44	12.74	12.43	12.47	12.69	12.63	12.55	12.43
Operating Exp (Rs/ Kg)	8.30	8.70	8.46	8.48	8.49	8.74	8.53	8.65
EBIDTA (Rs/ Kg)	2.4	1.8	2.1	2.1	2.1	1.9	2.1	1.8

Source: Company, SMIFS Institutional Research Estimates

Fig 3: Change in estimates

Rs mn	New Estimates			Old Estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Revenue	12,445	14,383	16,551	12,754	15,107	17,739	-2%	-5%	-7%
Gross profit	3,884	4,539	5,279	4,093	4,858	5,728	-5%	-7%	-8%
Gross margin (%)	31.2%	31.6%	31.9%	32.1%	32.2%	32.3%	-88 Bps	-60 Bps	-39 Bps
EBITDA	1,926	2,333	2,751	2,098	2,575	3,110	-8%	-9%	-12%
EBITDA margin (%)	15.5%	16.2%	16.6%	16.4%	17.0%	17.5%	-97 Bps	-83 Bps	-91 Bps
PAT	1,370	1,668	1,984	1,517	1,867	2,267	-10%	-11%	-12%
EPS (Rs)	36	44	52	40	49	60			

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	8,440	10,815	12,445	14,383	16,551
Operating Cost	5,667	7,330	8,560	9,844	11,272
% of revenues	67.1	67.8	68.8	68.4	68.1
Employee Cost	873	1,099	1,242	1,379	1,544
% of revenues	10.3	10.2	10.0	9.6	9.3
Other Expenses	556	638	716	827	983
% of revenues	6.6	5.9	5.8	5.8	5.9
EBITDA	1,343	1,747	1,926	2,333	2,751
Other Income	77	82	73	83	105
Depreciation & Amortisation	90	100	155	172	189
EBIT	1,330	1,729	1,844	2,244	2,667
Interest Cost	8	7	16	17	19
Core PBT	1,246	1,640	1,756	2,143	2,543
Exceptional items	-	-	-	-	-
PBT	1,322	1,722	1,829	2,226	2,648
Tax Expenses	316	432	458	558	664
Effective tax rate (%)	23.9	25.1	25.1	25.1	25.1
Reported PAT	1,006	1,290	1,370	1,668	1,984
Exceptional items	-	-	-	-	-
Adjusted PAT	1,006	1,290	1,370	1,668	1,984

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
Net Revenue	-18.2	28.1	15.1	15.6	15.1
EBITDA	10.7	30.1	10.3	21.1	18.0
PAT	12.9	28.3	6.2	21.7	19.0
Margins (%)					
Gross Margin	32.9	32.2	31.2	31.6	31.9
EBITDA Margin	15.9	16.2	15.5	16.2	16.6
EBIT margin	15.8	16.0	14.8	15.6	16.1
Core PBT Margin	14.8	15.2	14.1	14.9	15.4
Adjusted PAT Margin	11.9	11.9	11.0	11.6	12.0
Return Ratios (%)					
RoE	26.1	26.6	25.0	26.7	25.8
RoCE	26.1	26.7	25.2	26.8	26.0
Turnover Ratios (days)					
Gross Block Turnover (x)	3.6	3.6	3.2	2.9	2.8
Adjusted OCF/ PAT (in %)	120	85	144	108	105
Debtors days	72	61	59	56	55
Creditors days	44	37	34	34	34
Cash conversion cycle	28	24	25	23	22
Solvency Ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net Debt/ Equity	-0.1	0.0	0.0	-0.1	-0.1
Gross Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Current Ratio	2.6	2.9	1.9	2.0	2.2
Interest Coverage	170.5	237.7	116.4	128.8	139.2
Dividend					
DPS (Rs)	4.0	8.0	6.0	10.0	12.0
Dividend Yield (%)	0.2	0.5	0.3	0.6	0.7
Dividend Payout (%)	15.3	23.9	16.7	22.9	23.1
Per Share Data (In Rs)					
EPS	26.2	33.5	35.9	43.7	52.0
Adjusted EPS	26.1	33.8	35.9	43.7	52.0
CEPS	28.5	36.1	40.0	48.3	57.0
BVPS	112.9	139.3	146.8	181.1	221.7
Valuation Ratios (x)					
P/E	30.1	48.6	47.9	39.3	33.0
P/BV	7.0	11.7	11.7	9.5	7.8
EV/ EBITDA	21.9	35.3	34.0	27.9	23.5
EV/ Sales	3.5	5.7	5.3	4.5	3.9
Adj M.Cap/Core PBT	23.6	37.6	37.3	30.4	25.4
Adj M.Cap/ Adj OCF	24.3	56.1	33.1	36.2	31.1

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	77	77	76	76	76
Reserves & Surplus	4,262	5,285	5,522	6,829	8,376
Networth	4,339	5,362	5,599	6,906	8,452
Total Borrowings	10	10	10	10	10
Net deferred tax liability	54	79	79	79	79
Other non-current liabilities	1	1	1	1	1
Total Liabilities	4,404	5,452	5,688	6,995	8,542
Application of Funds					
Gross Block	2,590	3,370	4,444	5,420	6,396
Net Block+CWIP	2,544	3,229	4,239	5,156	6,085
Intangible assets	18	30	34	36	40
Other non-current assets	147	11	11	11	11
Trade Receivables	1,695	1,895	1,876	2,064	2,343
Cash and Cash Equivalents	272	180	265	620	1,155
Other Current assets	762	1,226	753	831	902
Total Current Assets	2,893	3,342	2,938	3,561	4,450
Trade payables	752	737	1,072	1,236	1,426
Other Current Liabilities	281	381	417	485	568
Total Current Liabilities	1,033	1,119	1,489	1,721	1,994
Net Current Assets	1,860	2,223	1,449	1,840	2,457
Total Assets	4,404	5,452	5,688	6,995	8,542

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Op. profit before WC changes	1,409	1,793	1,992	2,408	2,838
Changes in working capital	90	-264	463	-34	-78
Taxes Paid	-284	-421	-458	-558	-664
Cash Flow from Operating Activities (a)	1,215	1,108	1,996	1,815	2,097
Adjusted OCF	1,207	1,099	1,980	1,798	2,077
Capital Expenditure	-554	-800	-1,169	-1,090	-1,123
Adjusted FCF	653	299	811	708	954
Cash Flow from Investing Activities (b)	-986	-893	-761	-1,082	-1,104
Net issuance of equity	22	20	20	20	20
Payment towards Buy-Back	-	-	-925	-	-
Borrowings	-19	-10	-	-	-
Dividend paid	-77	-308	-229	-381	-458
Interest expense	-8	-9	-16	-17	-19
Cash Flow from Financing Activities (c)	-82	-307	-1,149	-379	-457
Net change in cash (a+b+c)	146	-92	85	354	535

Source: Company, SMIFS Institutional Research Estimates

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Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta,

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India

Contact No.: (D) +91 33 6634 5408, (B) +91 33 40115400

Email Id: smifs.institutional@smifs.com
