INITIATING COVERAGE REPORT

04-June-2021

TCI Express Ltd

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Brief Overview

CMP (INR) (As on 03-Jun-21)	1,484
Target (INR)	1,832
Upside(%)	~23.4%
Recommendation	**STRONG BUY**

BSE Code	540212
NSE Code	TCIEXP
Reuters Ticker	TCIE:NS
Bloomberg Ticker	TCIEXP@IN

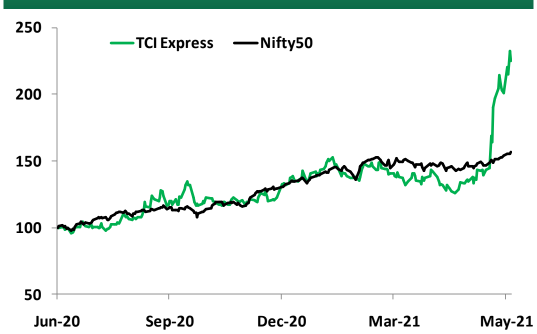
Stock Scan

Market cap (INR Mn)	57,054
Outstanding Shares (Mn)	38.4
Face Value (INR)	2.0
Dividend Yield(%)	0.13%
P/E (x) (Adjusted)	56.7x
P/B (x)	13.2x
Debt/Equity (x)	0.0x
Beta vs. Nifty	0.42x
52 Week High/ Low (INR)	1,560/ 628
1Yr-Avg. Daily Volume (NSE)	52,347

Shareholding Pattern (%)

	Mar 2020	Dec 2020	Mar 2021
Promoters	66.91%	66.79%	66.79%
Institutions	10.94%	12.18%	12.57%
Non-Institution	22.15%	21.3%	20.64%

Exhibit 1 - **TCI Express vs Nifty (Relative Returns)**



Source: NSE, SMIFS Research

TCI Express Ltd.: A safe play in Indian logistics sector growth story

TCI Express Ltd is the leading B2B express logistics company providing door-to-door Express Distribution Services. TCI Express came into existence in 2016 with the demerger of TCI XPS from TCIL. TCI Express has built an extensive network of more than 800 branches across the country covering 708 districts. The company possesses the capacity of servicing 40,000+ pickup and delivery points through its 5000+ containerized vehicles. TCI Express adopts a unique hub-and-spoke model fulfilling 2,500 feeder routes through its 500 express routes and 28 strategically located Sorting Centers. The network efficiencies built over past few years has led to outpace the growth in profitability (~28% CAGR) over revenue growth (~3% CAGR) during FY17-21.

TCI Express has successfully built a strong position in the B2B segment, with focus on SMEs clients (~50% revenue). Continued focus and investments on technology has enabled company to stay ahead of the competition and deliver value added services to clients. Recently, it has launched Cold Chain Express and C2C Express services. TCI Express to further strengthen its efficiencies and capabilities through automation, setting up new sorting centers and adding new branches.

We initiate coverage on TCI Express with a "STRONG BUY" rating and price target of Rs 1,832, over a period of 12-18 months, valuing the stock at 40x FY23E EPS of Rs 45.8.

- **Asset light business model:** TCI Express has maintained an 'Asset light model and refrained from taking ownership of the fleet or doing large investments in building assets. This has provided greater flexibility as the WC requirement is low.
- **B2B business model with diversified industry exposure:** Derives ~95% of the revenue from B2B Express, which is well balanced between SMEs and corporate customers across key manufacturing industries; ~50% exposure to SMEs help to keep the utilizations high (~86%) and expansion in margins; ~60% exposure is towards industries, which are relatively immune to economy slowdown.
- **Diversifying revenue stream with launch of new value added:** Launched 'Cold Chain Express Service' aimed to cater, Pharma and Frozen Food Packaging companies, and C2C Express service to provide multi-location pick-up and delivery services. Margins in Cold Chain express business expected at ~20%.
- **Automation and setting up of new 'sorting centers' to drive growth:** Has opened 2 new sorting centers at Pune and Gurugram. Planned capex of Rs 500 million towards automation of these centers, which will result in shorter turnaround time, higher capacity utilizations, increased operational efficiencies and profitability.
- **Strong guidance:** Management has provided strong guidance post Q4FY21. It expect revenue to be ~Rs 20,000 million, while net profits to grow 4x in next 4 years.

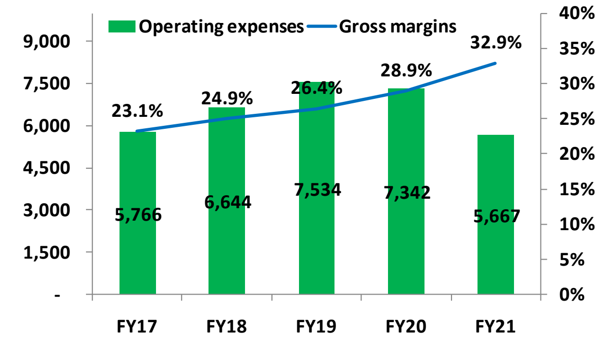
Exhibit 2 - **Financial Performance at a glance** **In Rs Million**

Particulars (In Rs Mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	**10,238**	**10,320**	**8,440**	**11,210**	**13,514**
Growth %	15.7%	0.8%	-18.2%	32.8%	20.5%
EBITDA	**1,190**	**1,213**	**1,343**	**1,918**	**2,381**
EBITDA Margin (%)	11.6%	11.8%	15.9%	17.1%	17.6%
Net Profit	**728**	**891**	**1006**	**1404**	**1760**
Net Profit Margin (%)	7.1%	8.6%	11.9%	12.5%	13.0%
EPS (In Rs)	**19.0**	**23.2**	**26.2**	**36.5**	**45.8**
BVPS (In Rs)	**69.7**	**87.9**	**112.9**	**141.4**	**176.7**
P / E (x)	78.3	64.0	56.7	40.6	32.4
P / BV (x)	21.3	16.9	13.2	10.5	8.4
ROE (%)	30.7%	29.5%	26.1%	28.7%	28.8%
ROCE (%)	44.1%	38.1%	34.3%	37.8%	37.9%

Source: Company Data, SMIFS Research

Investment Rationales

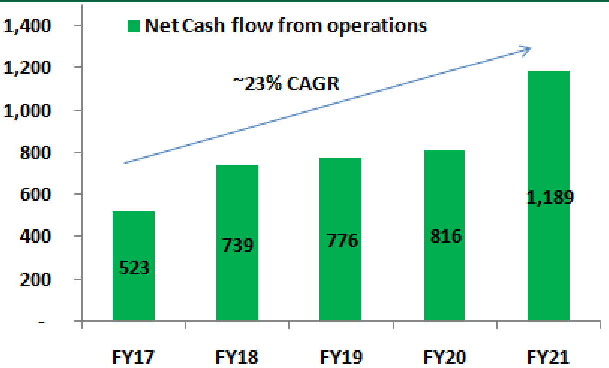
Exhibit 3 - **Gross Margins improved continuously**



Source: SMIFS Research

TCI Express has maintained utilization levels over ~85% during FY17-21.

Exhibit 4 - **Net CFO have grown at a CAGR of ~23% over FY17-21**



Source: SMIFS Research

To maximize value and build strong relationships with truck vendors, the company has implemented a Centralized Vendor Management system. This will help in identifying and evaluating vendor capabilities, including turnaround times, delivery assignments and overall quality of services. This is expected to result in building strong vendor relationship and create sufficient strategic alignment between vendors and business.

An asset light business model has allowed higher utilization, improved gross margins and strong cash flows

Since its establishment, TCI Express has **maintained an 'Asset light model and refrained from taking ownership of the fleet.**

As on FY21 end, the company has ~5000 fleet, which is fully hired on lease from ~1700 vendors across the country. The company has **long-term contracts with the fleet owners,** which it renews every year. The vendors follows the company's SOP (Standard operating procedure) and run on time bound schedule. TCI Express **pays its vendors on a per kilometre basis**, which takes into account all the expenses related to drivers salary, license, fuel cost, other documentation cost, maintenance of the vehicle etc.

The company through regular price hikes, has been able to pass on the increase in fuel cost to the customers. This has helped company to keep operating costs under control and continuously improve its gross margins over the years.

The gross margins have expanded ~970bps from ~23.1% reported during FY2017 to ~32.9% in FY21.

TCI Express **doesn't work on franchise model. All the ~800 branch offices are 100% owned** by the company, which ensures adoption of best standard operating procedures and thus **better controls on the branches in-terms of costs and efficiencies.** The company takes the space on rent/ lease for branch expansion. The branch set-up cost is around ~1 Rs lac/ branch with monthly operating cost of ~Rs 50,000. The company usually achieves break-even in 2 month. Majority of the company's **investments are only towards establishing sorting centers**, the number of which stood at 28 as on FY21 end.

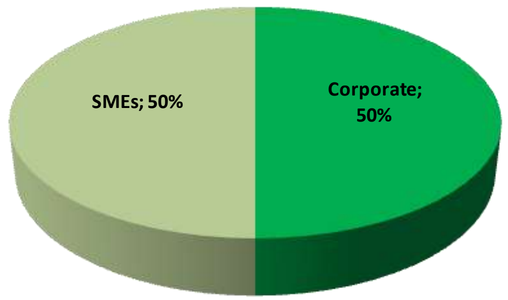
With the help of the current infrastructure and network, the company is **able to service ~40,000 locations in India.** The customer count stood at 2 lakh as on FY21 end, against 1.6 lakh in previous year.

An asset light model has allowed company to maintain higher capacity utilizations (over ~85% in last few years) and drive strong cash flows. The Net Cash Flow from Operations have increased to Rs 1,189 million in FY21 against Rs 523 million reported in FY17.

Since the company is focused completely on outsourced model, it provides greater flexibility to the company as the working capital requirement for the company is low.

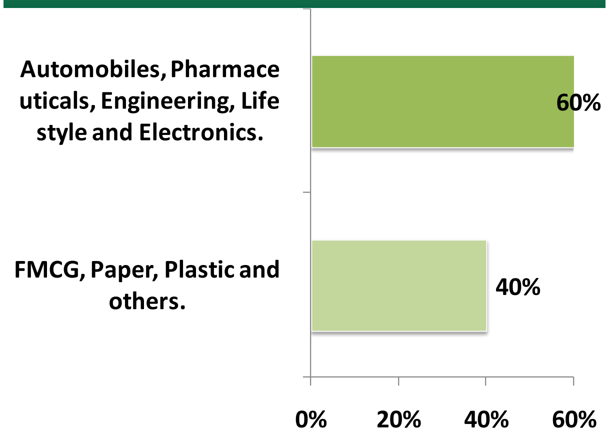
Services

Exhibit 5 - **B2B Express Business Revenue Distribution (%)**



Source: SMIFS Research

Exhibit 6 - **Industry Exposure (%)**



Source: SMIFS Research

B2B business model with diversified industry verticals exposure

TCI Express **is mainly present in B2B Express segment (Business-to-Business) providing services to key industries in the manufacturing sector.** The segment a**ccounts for ~95% of the company revenue,** while the portion of B2C segment is rather small at ~5%.

Within the B2B Express services, TCI Express's revenue stream is well balanced between the SMEs and corporate customers. **The SMEs accounts for ~50% of the company revenues, while the rest ~50% is contributed by more than 2,000 leading corporate.**

This uniform combination of SMEs and corporate helps the company to maximize its fleet utilization level. The corporate customers usually provides volume business with lesser number of transactions compared to the SMEs customers. While the SMEs provides higher number of shipments with lesser volume. The SMEs shipments helps to fill the containers up-to full load and thus maximize utilization level.

In the SME segment, the company has an **upper hand in terms of pricing power**. Thus, there is a difference in margins between the SMEs and corporate business. **Usually, the margin in SMEs segment is higher by ~50% compared to corporate customers.**

Being present mainly in B2B Express segment, the company's business performance has also shown resilience during the current pandemic situation , compared with companies operating in B2C segment.

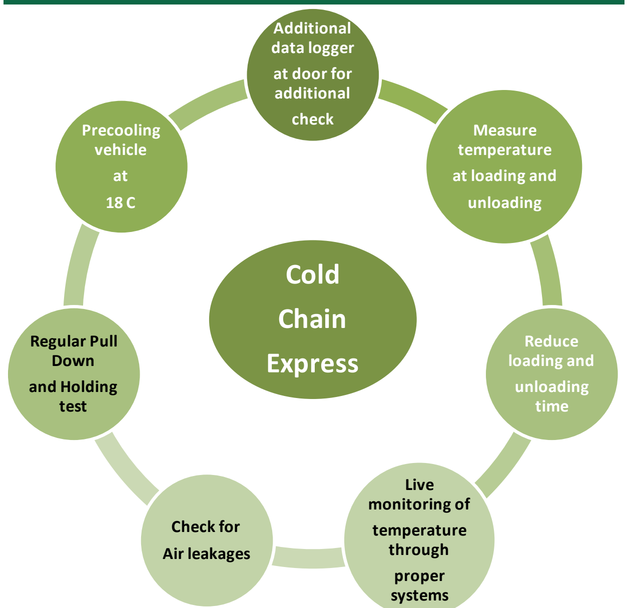
In terms of industry exposure, around **~55-60% of the revenues comes from key industries like *Automobiles, Pharmaceuticals, Engineering, Life style, Electronics etc.. The rest ~40-45% of the revenues is contributed by sectors like FMCG, Paper, Plastic etc.***

In the automobiles and engineering, the company mainly do the shipments of spare parts, which keeps on moving due to demand towards repairs and maintenance, irrespective of the economy situation. The demand for pharma shipment is always there and it has rather increased during the present Covid-19 pandemic.

The revenue stream of TCI Express is diversified over many sectors, thus minimizing the risk associated with a specific industry. Also the key industries, served by the company are relatively immune to economy slowdown, and hence protect the revenues in case of downturn.

Investment Rationales

Exhibit 7 - **Standard Operating Procedures**



Source: TCI Express presentation

Being asset light model, the 'Cold Chain Express' business is expected to be a highly profitable business, with EBITDA margins as high as ~20%.

The Indian cold supply chain sector is set to grow at a CAGR of 17-18% till 2022 due to demand for cold storage, primarily driven by the pharma sector, especially the vaccine supply chain in early 2021, followed by requirements from seafood, meat and similar industries. While growth will be driven by introduction of a Government-led Covid immunization programme, the growing e-commerce market for FMCG, dairy, meat and fish, will also help propel the sector significantly, given the ongoing virus threat. At present, healthcare products hold a 3.6% share in the overall Indian cold chain market that is expected to grow around 6% by the end of 2021.

(Source: International Market Analysis Research and Consulting Group services report).

Diversifying revenue stream with launch of new value added

Cold Chain Express Service

TCI Express has **successfully launched** '**Cold Chain Express Service'** during Q4FY21, which is a new value added service aimed **to cater, Pharmaceuticals and Frozen Food Packaging companies,** to meet the growing demand for Cold Chain logistics.

TCI Express continues **to adopt asset light model in the Cold Chain logistics** segment, in line with the strategy it is already been following in its core business segment, i.e. B2B express logistics. The new service **to use existing hub and spoke network of the company**, which **means higher utilization of the existing assets and network.** As the Cold Chain Express service to utilize existing assets like office, IT setup, network, locations etc., the additional investments has been made only towards appointing a separate teams to drive the business offering.

Under the new service, the company provides logistics service to Pharma companies, by dispatching shipments like Frozen (Blood Plasma) and Vaccines, under the prescribed temperature as required by the norms and ensuring that there are no fluctuation in the temperature during the transit period.

Along with Pharma companies, TCI Express is also providing the Cold Chain Express service to the **Frozen Food packaging companies,** by dispatching frozen products as per FSSAI norms ensuring there are no fluctuation in the temperature.

The monitoring of temperature is maintained through Data Loggers and real time monitoring is done though tracer. The delivery vehicles tracking is being done through GPS and the customer is provided real time data. The temperature is maintained not only during the transit, but also it requires proper loading and unloading of material ensuring there are no temperature fluctuation.

In India, the element of 'express' is missing in the combined FTL and LTL (Full Truck Load and Less-than Truck Load) market, as the existing offerings are not time sensitive and not exactly fulfilling the requirement of customers. Thus, there is ample demand, while the supply of specialized services is insufficient.

With the launch of Cold Chain Express service, TCI Express is targeting the business opportunity, which has an estimated **market size of ~$200 bn. Being asset light, the 'Cold Chain Express' business is expected to be a highly profitable, with EBITDA margins of ~20%.**

Investment Rationales

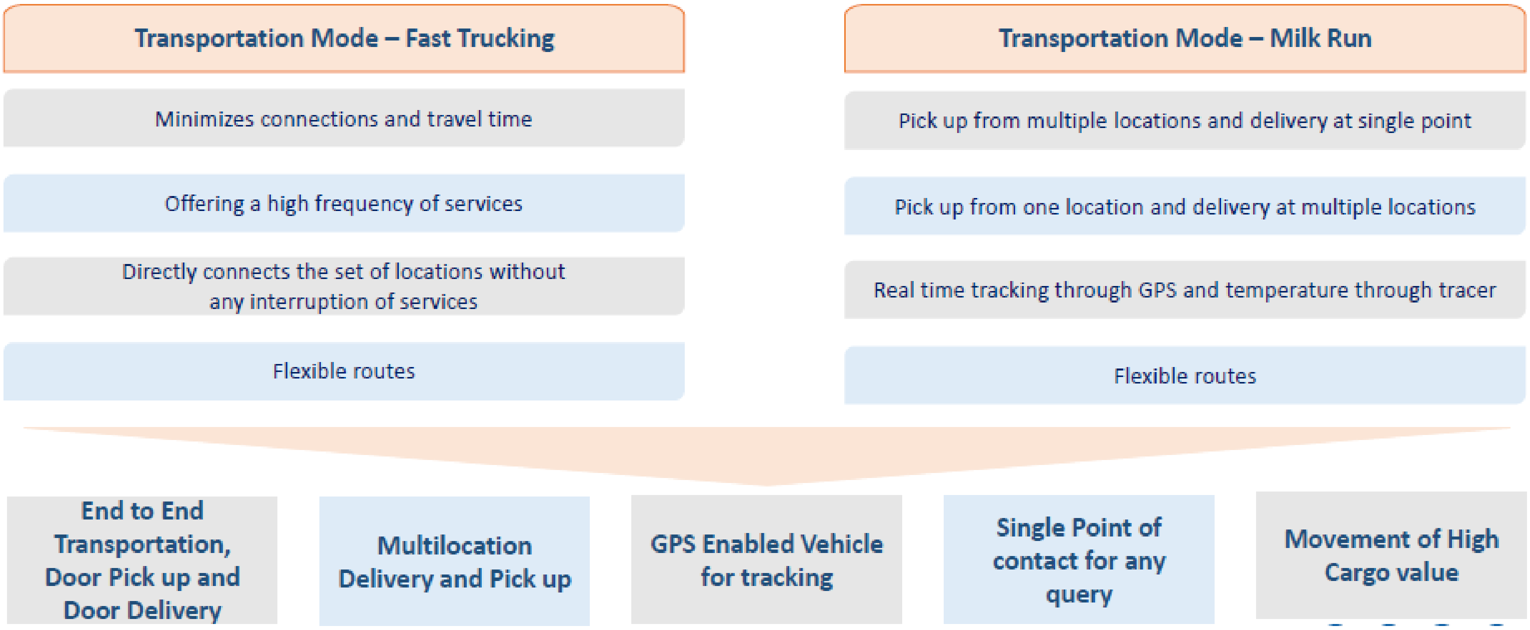
C2C Express Service

TCI Express has **also launched the C2C Express service during Q4FY21.** Within this new service, the company provides customer to customer express service with multi-location pick-up and delivery.

TCI Express has appointed separate teams to drive this new business offering.

The new services to diversify the revenue stream of the company and expected to drive the return ratios due to increase in utilization.

Exhibit 9 - **C2C business offerings**



Source: TCI Express presentation

Investment Rationales

Ongoing capex in setting up of and automation of sorting centers to further drive growth

During FY21, Co has incurred a **total capex of Rs 550 million towards setting up two sorting centre.** The construction work for the first **sorting centre in Pune, whic is 1.5 lakh sqft in size, is completed** and it is waiting for regulatory approval to commence operations.

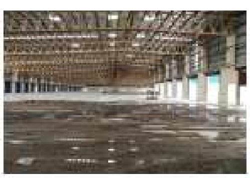
The **second sorting center in Gurugram, (2 lakh sqft) is expected to be operational by Q3FY22.** Further, the company has planned **to spend Rs Rs 500 million on automation** of these sorting centers to enhance operational efficiency.

The company is also **planning to set-up a new sorting center in Kolkata and Chennai. Overall planned capex for FY22E is ~Rs 1,000 million.**

The automation and setting up of new sorting centers to result in shorter TAT (Turnaround Time), higher capacity utilizations, enhanced customer satisfaction, increase operational efficiencies and profitability.

Exhibit 10 - **Capex towards new sorting centers**

Gurgaon Sorting Centre



Location:	Gurgaon
Area:	2 lakh sq.ft
Solar Panel:	800 KW
Operational:	Q3 FY2022

Pune Sorting Centre

Location:	Pune
Area:	1.5 lakh sq.ft
Solar Panel:	600 KW
Operational:	Construction Complete Regulatory approvals awaited

Inhouse ERP and Automation

Shorter Turnaround Time

24x7 Higher Capacity Utilization

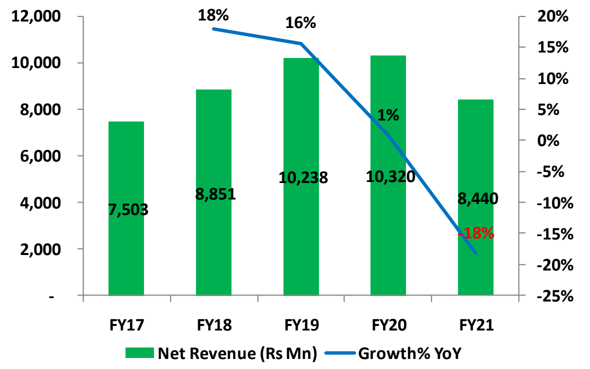
Enhance Customer Satisfaction

Enhance Profitability

Source: TCI Express presentation

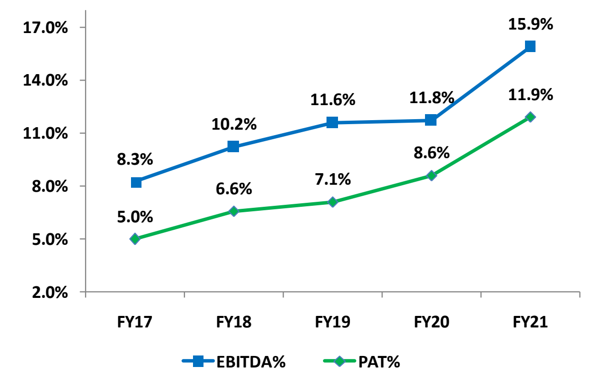
Investment Rationales

Exhibit 11 - **Net Revenue grew at a CAGR of ~11.2% over FY18-20**



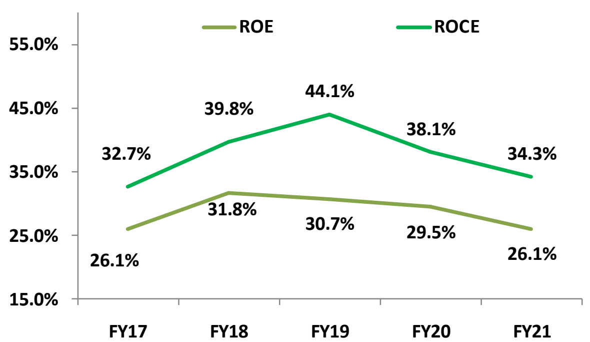
Source: TCI express AR, SMIFS Research

Exhibit 12 - **EBITDA, PAT margins witnessed continuous expansion in last 5 years**



Source: TCI express Annual Report

Exhibit 13 - **Superior return ratios compared to peers**



Source: TCI express Annual Report

Track record of consistently delivering enhanced margins and profitability

TCI Express has 5 Year (FY17-FY21) track record of **consistently delivering steady growth in top-line and continuously improving, margins and profitability.** Over FY18-21, company's **Revenue, EBITDA and PAT have grown at a CAGR of ~3%, ~21% and ~28%, respectively.**

The company has witnessed strong margin expansions over FY17-21. **Over FY1-20, the EBITDA and PAT margins have improved ~760bps and ~590bps** from ~8.3% and ~5% in FY17 to ~15.9% and ~11.9% in FY20, respectively.

However, the **Net revenues during FY21 were down 18% YoY at Rs 8,440 million**, due to **~21% YoY in decline in volume,** as business affected during the H1-FY21 owing to lockdowns imposed during the period.

Despite a de-growth in top-line, the company has **reported ~10.7% growth in EBITDA** and **~12.9% growth in net profits** during the year, due to *a) higher capacity utilization, b) ability to pass through select cost and c) cost control measures taken during the year.*

Strong balance sheet and healthy return ratios; Consistent dividend paying record

TCI express has **maintained a strong balance sheet** over the years. As on FY21 end, the company has **Net Cash of Rs 849 million** in books compared to net debt of Rs 223 million in FY17. The **Net D/E ratio stood at -0.06x for FY21** against 0.14x in FY17.

The **ROE and RoCE ratio** for the company **stood healthy at 26.1% and 34.3%** as on FY21 end. TCI Express has reported **Cash flow from operations at Rs ~1189 million for FY21**, against ~Rs 523 million reported in FY17, a **CAGR of ~23% in the last 4 years.**

The company has **consistently paid dividend for last 5 years.** On an average, it has **distributed ~15% of the profits** to the shareholders over FY17-21.

The dividend payout ratio is expected to improve with increase in cash flows.

Investment Rationales

Formalization of logistics sector through regulatory reforms is positive for organized players

The Government of India, **implemented goods and services tax (GST) w.e.f. 01-Jul-2017**, which **abolished state border check-posts,** which were the key barrier against smooth movement of goods vehicles due to practice of collecting taxes at these borders. This **led to reduction in transit times of trucks by ~30% and reducing transport costs by ~3-7%.** Also, a change in optimal network design after GST has **helped in forming bigger warehouses** instead of small warehouses in every state, **leading to ~40% increase in inventory turnover.**

India also **introduced the e-way bill system under the GST in April, 2018.**The e-way bill mechanism is an anti-tax evasion measure. E-way bills eliminated the hindrance of physical inspection of papers and goods at each border.

The GST implementation has increased the cost of business for unorganized players while strengthening the overall price value proposition for organized players. Earlier, un-organized players were able to provide logistical services at a cheaper cost compared to organized players, given the higher cost of compliance. The organized players with pan-India presence were benefited post GST implementation.

Robust volume and revenue guidance for FY22; Long-term outlook healthy

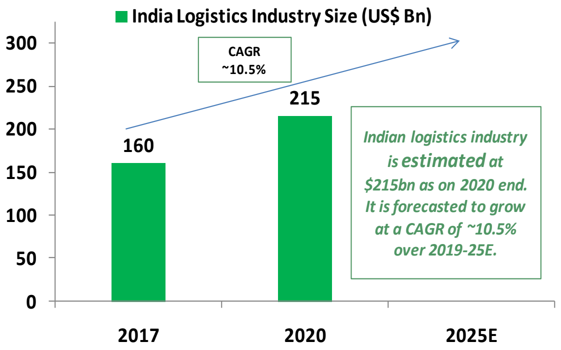
Post the Q4FY21 results, the company has **provided a robust guidance for FY22E.** The management has guided for **~40% growth in volume and ~35% growth in revenue for** FY22E.

Further, the company **aims to be ~Rs 20,000 million company by FY25E** and targets to **grow its net profits by four times.**

This translates into Revenue and Net Profit CAGR of ~24% and ~41% over FY21-25E.

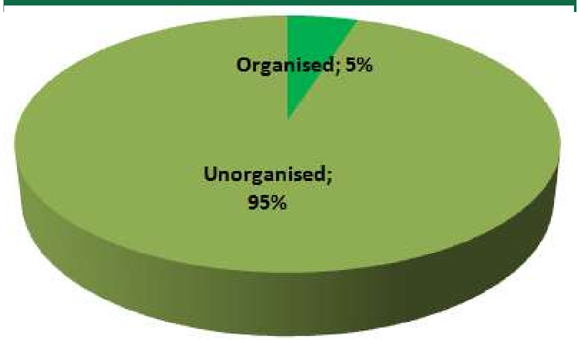
Industry Overview

Exhibit 14 - **India logistics Industry Size (In US$ Billion)**



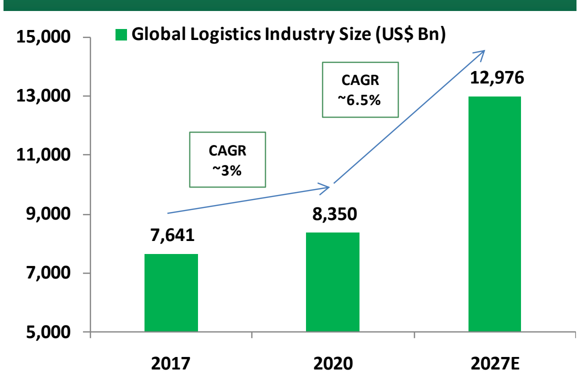
Source: Market Research

Exhibit 15 - **India's logistics market is dominated by un-organized players**



Source: TCI Express presentation

Exhibit 16 - **Global logistics Industry Size (In US$ Billion)**



Source: Allied Market Research

India Logistics Sector

The Indian logistics industry is a high profile sector with regards to its contribution to national and state incomes, trade flows, foreign direct investment and as well as national employment. **India's supply chain and logistics industry is one of the largest globally, with a size of US$ 215 billion (2020 end) and forecasted to grow at a CAGR of ~10.5% between 2019-2025.**

However, India's logistics sector is **highly fragmented** and **dominated by unorganized players, which accounts for ~95%** of the total market.

Logistics sector in India **provides crucial support to the national economy**. In the current crisis times, **logistics can emerge as the backbone of the economy** thus **strengthening other sectors** of the economy. Given the scale and depth of operations, the **sector is labour intensive having employed ~22 million people.**

Despite its size and criticality to economic growth, India's supply chain is industry is grappled with some structural issues like poor infrastructure, fragmented networks, unbalanced logistics modal mix, high indirect costs and lack of technology adoption, due to which logistics spend as percentage of GDP is high in India. India's total logistics spend is estimated at **~13-14% of GDP, which is high compared to ~8-9% in other developing countries**.

Recently, the **Government has presented a draft of the upcoming 'National Logistics Policy' (NLP),** which aims to create a national logistics e-marketplace for exporters and importers, increasing employment opportunities in the sector thereby reducing the cost of logistics. **The policy aims to reduce logistics cost to ~9-10% of the GDP by 2025.**

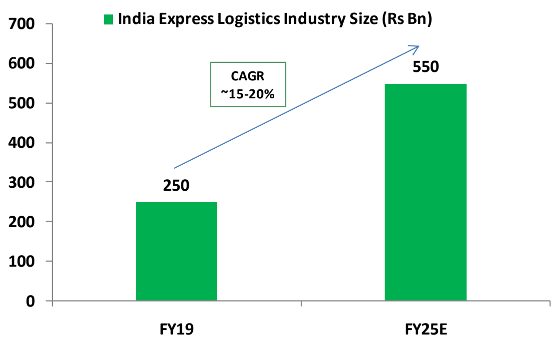
Despite being highly fragmented and dominated by unorganized players, the Indian **logistics industry has shown tremendous improvement over the last decade,** reaching to a level where the Indian logistics industry and its players today are competing with the top global players and markets.

Growth in the sector is supported by Government reforms, transportation sector development plans, progress in manufacturing, growing retail and FMCG sales and presently the eCommerce sales. In the Union Budget 2020 -21, the Government has given a massive push to the **infrastructure sector by allocating Rs 1.7 trillion** for the transport infrastructure.

The development of logistics infrastructure, such as ***dedicated freight corridors, logistics parks, trade warehousing zones, port modernization and container freight stations*** will also go a long way in improving efficiencies.

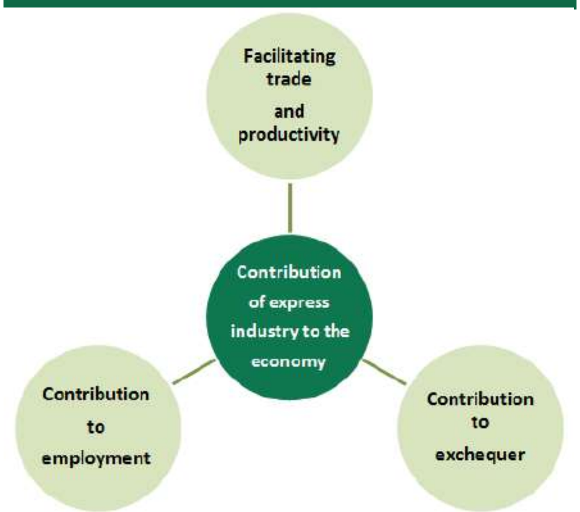
Industry Overview

Exhibit 17 - Contribution of Express Logistics Industry to the Economy



Source: Gati Presentation

Exhibit 18 - Contribution of Express Logistics Industry to the Economy



Source: TCI Express Annual Report

Indian Express Logistics Industry

This Covid-19 crisis saw logistics industry emerge as the key differentiator for the companies rather than being just an activity that happens in the background.

Though the size of **Indian express logistics industry** is expected to constitute a mere **~2% of the global express logistics industry**, It is one of the **fastest growing industries across the world, with a CAGR of ~15% over 2012-17.** *(Source: Deloitte Report)*

The rising importance of e-commerce, increasing B2B transactions, and the subsequent surge in consumer demands has resulted in solid growth of the industry along with its continuous transformation.

Express logistics operators provide fast, reliable, on demand, integrated, door-to-door movement of shipments across the world which are tracked and controlled throughout the journey. One of the most important **contributions of the express industry is its impact on the competitiveness and growth of the other industries.** Due to its rapid growth, the express logistics industry has emerged as a significant contributor to the economy by facilitating the speed of trade and commerce.

With the growing importance of digitization, the express logistics industry is likely to see major transformation as more and more companies opt for a digitally advanced logistics platform. ***Shortening of product lifecycles, evolving business models such as just-in-time approach, global outsourcing, and increasing demand for expedited delivery created newer demand segments for the express industry.***

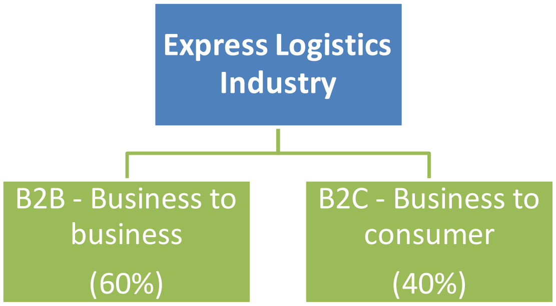
The industry is pegged to grow at a CAGR of ~17% till 2023 to reach ~Rs 480 billion and employ nearly ~26 lakh people (from ~16 lakh). *(Source: Deloitte Report)*

Exhibit 19 - Process flow of the express logistics industry

Source: TCI Express AR 2020

Industry Overview

Exhibit 20 - **Classification of Express Logistics Industry as per customer typre**



Source: Deloitte Report

Based on the destination of delivery, the **Express logistics shipments are categorized as a) B2B shipments** (business to business), which are delivered from one business entity to another, **and b) B2C (business to consumer),** which refers to shipments for home delivery. **B2B shipments contribute close to ~60% by value,** while B2C shipments constitutes the rest ~40%.

Indian B2B express logistics industry

The **manufacturing sector has propelled the growth of Micro, Small and Medium Enterprises (MSMEs)**, a segment which has grown at a very fast pace in India. The **MSMEs are the primary customers of the express industry**. **Thus, manufacturing growth has remained a major driver of the B2B express industry in India.**

Presently, manufacturing and engineering based companies are the key consumers of B2B express services. Some of the other key industries utilizing and benefiting from express services include electronics (OEMs), auto components, digital goods, textiles, pharmaceuticals, medical devices and industrial engineering.

With increasing focus by the Government on Make in India, these industries have started delivering improved growth rates which in turn have boosted the demand for express services across the country.

The express industry, which includes both domestic and international shipping, originated in the 1980s in its formal organized form and has seen many shifts since its inception. As the scale of operations and expertise has grown, the industry broadened its coverage to non-document shipments.

By FY 2012, express delivery services were widely used in India for several types of shipments such as commercial documents, samples, material and spare parts and other goods. However, due to the increasing penetration of the internet and rise of e-commerce, there was exponential increase in adoption of more convenient and cost effective electronic communication channels, which resulted in the shrinking of shipment of documents.

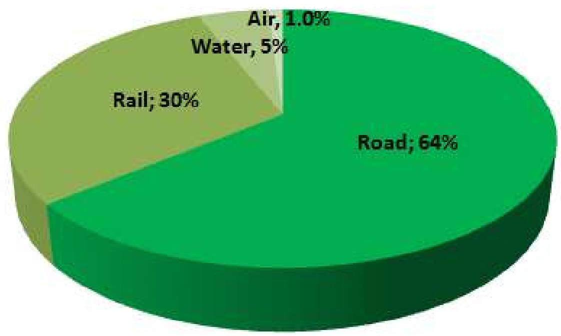
Exhibit 21 - **Express Service used for crucial business cases**

Industry	Products requiring express service
Auto Components	Delivery of spare parts to remote locations and/or on an urgent basis
	Safe transport of products such as batteries and lubricants which require special handling due to their inflammable nature
Apparel and Lifestyle	Shipment of products from warehouse to distributors
	Large players use express services to meet the surge in demand during festive seasons, while smaller players use it for almost all long-haul transport
Electronics	Delivery of spare parts required for aftersales service of PCs, laptops, mobiles and printers
Medical Equipment	Urgent shipment of critical medical equipment at hospitals and nursing centres
Pharmaceuticals	Shipment of critical clinical trial products and time and temperature sensitive medication requiring safe handling
	Meet seasonal demand surges

Source: TCI Express Annual Report

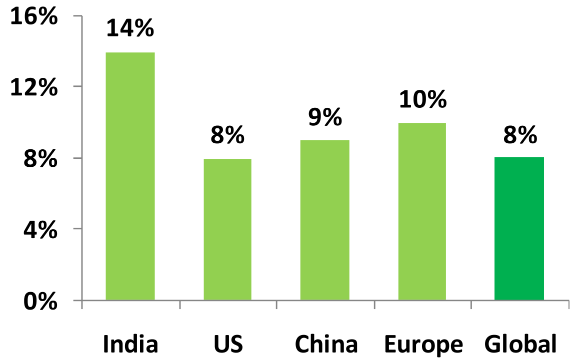
Industry Overview

Exhibit 22 - Indian Logistics Market Split



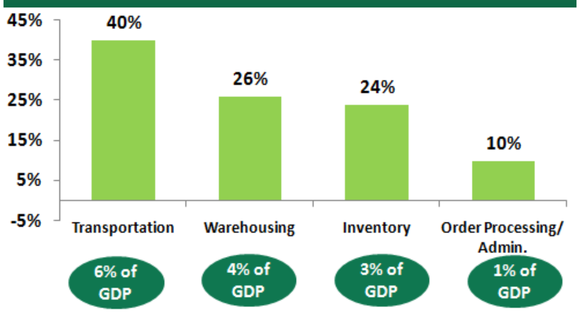
Source: TCI Express presentation

Exhibit 23 - Logistics cost comparison*



Source: Logistics sector report by Arthur D. Little, CII.
*Based on the expenditure method of GDP calculation

Exhibit 24 - Breakdown of the total logistics cost of Indian supply chain



Source: Logistics sector report by Arthur D. Little, CII.

Direct costs include transportation, warehousing, and VAS; while Indirect costs include inventory carrying costs, theft, damages and losses in transit.

India's logistics cost is high, leaving huge competitiveness gap

India's logistics sector is heavily dependent on **transportation by road, which accounts for ~64% of the total freight movement,** followed by Railway (~30%), Water (~5%) and Air (~1%). India's rail, waterways and sea network are highly under-utilized, as transportation through these either increases the cost or transit time or both, due to poor infrastructure. Diversion of higher traffic to road network makes it more congested.

Apart from that, there is a **lack of technology adoption.** The slow adoption of supply chain technology, including AI (artificial intelligence), Blockchain and IoT (Internet of Things) remains a major shortcoming within the sector. Organizations globally have adopted the latest technologies to ensure full visibility and real-time information on processes in the supply chain.

Lack of digitization, inventory mismanagement and inaccurate demand predictions in the absence of technology contribute to the 'competitiveness gap' between India and its global peers. This has **resulted in high cost for the supply chain industry,** adding to the competitiveness gap between India and its peers. India's **supply chain and logistics costs is ~14% of the country's GDP,** compared to global average of ~8%, leaving a **competitiveness gap of ~$180 billion** in the sector.

This gap is **expected to increase to $500 billion by 2030,** if the inefficiencies in the supply chain are not addressed. **According to the 'World Bank Logistics Index' released in 2018, India ranked 44th, far behind the US at 14 and China at 26.** Other countries , such as Thailand and Vietnam have also high costs reaching ~14% and 16-17% of GDP, respectively.

In India, **Transportation represents ~40% of logistics costs,** followed by **Warehousing (~26%), Inventory (~24%)** and **Order processing/ Admin. (~10%). The Transportation, Warehousing, Inventory and Order processing/ Admin. costs forms ~6%, ~4%, ~3% and ~1% of the GDP, respectively, totaling to ~14%.**

Currently, the **per-ton-km cost of transportation via the road network is almost double that of rail and waterways**, at Rs 2.58/ton-km, compared to Rs 1.41/ton-km for railway and Rs 1.06/ton-km for waterways.

In India, Indirect costs forms ~40% of the total logistics costs, which are ~4x the average of those in developed countries. The key reasons being the excessive layers in distribution channels, inventory mismanagement due to inadequate demand forecasting in absence of technological adoption. It also leads to high inventory carrying costs, which include costs for holding and storing unsold goods. These costs alone forms ~4-6% of total logistics costs, which amounts to $120 - 180 billion.

Industry Overview

Road transport in India carries ~64% of total freight movement, which is a jump of ~2x compared to 20 years ago.

In spite of lower freight cost of rail are ~45% cheaper than road freight, adoption of rail for freight movement has been limited, mainly due to:

- Adverse pricing and rake booking policies adopted by the railways

- Lack of intermodal facilities to enable easy freight transfer between rail and road, needed to ensure seamless first mile and last mile connectivity.

The warehouse industry in India is still highly unorganized and fragmented. Most of the warehouses in India are less than 10,000 sq.ft. which results in high inventory holding costs, higher storage cost and improper material handling leading to damage of the product.

Challenges ahead of India's logistics sector

Poor-quality Infrastructure

ROAD: **India's road network** is 2nd-largest globally, totaling to **~6.21 million km, yet national highways are just 1.36 lac km or ~2.2%** of it. This puts severe load on the national highway network, which carries ~40% of the road traffic. The average speed of freight vehicles on Indian roads is ~25-30 kmph, which is 50-60% lower as compared to US, adding to the freight cost.

RAILWAY: **India has one of the largest rail networks** in the world, spread over 126,366 km *(Mar-20 end)*. However, the **average speed of freight trains in India is low at ~23 kmph**, compared to ~38-40 kmph for those in US and China. Due to poor transit time, the railway's share in total freight traffic has declined from ~52% in FY08 to less than ~30% in FY19.

WAREHOUSE: **India has a shortage of warehousing space.** Storing of drugs and perishable consumer items requires cold-storage facilities. As of 2019, India had a total **cold-storage capacity of 226.7 lakh tons, against the required capacity of 350 lak tons.** According to an estimate by the 'Indian Council of Food and Agriculture', ~30% of agricultural produce goes to waste every year due to lack of cold chain infrastructure.

Fragmented Trucking Network

India's logistics sector has remained fragmented and unregulated, comprising many local players and no big players that can create end-to-end platforms. The **trucking industry is especially unorganized**. **Only ~10% of Indian truck operators own fleets above 25 trucks**; most others are drivers with single trucks who rely on third parties to handle their orders. In the absence of big players to control the market, **businesses at entry level are at a cost disadvantage.** The **turnaround time for trucks in India is low** at less than ~300 km/ day compared to more than ~700 km/ day in EU and US.

Uneven Channel Mix for Domestic Retail and FMCG Sales

In India, **retail market is dominated by unorganized retail, which is ~90% of total**, **comprising ~12 million *kirana* stores.** Digital/e-commerce platforms accounts for just ~2% of sales, while **organized retail is only ~8%**. In comparison, countries like **China and the US have much higher shares of organized retail and online sales.** For China, the share for organized retail and online sales is 56% and 21%, respectively, while for the US, it 76% and 14%, respectively. With the presence of such a large number and scattered 'micro and small-scale sellers', the supply chain has become convoluted.

Source: Logistics sector report by Arthur D. Little, CII.

Industry Overview

Exhibit 25 - **Key Areas for Creating Sustainable Growth in Logistics Sector**

Logistics Infrastructure → Regulatory Reforms → Technological Integration

Infrastructure Development	Formalization of Sector	Operational Efficiency
• Launch of New Dedicated Freight Corridor • Improved Rail and Port Connectivity • Multimodal Logistics Park	• Goods and Service Tax • Implementation of E-way Bill • E-Invoicing	• Automation of Sorting Centres • GPS Enabled Tracking and Improved Customer Support Services

Source: TCI Express presentation

Logistics Infrastructure Development

With the commissioning of the Eastern 1839 km) and Western (1483 km) DFCs by Jun-22, it is estimated that ~70% of freight traffic currently plying on passenger lines will be gradually shifted to the DFCs. *(Source: MoRTH, Newspapers)*

RAILWAY: The **'National Rail Plan'**, recently released, has set an ambitious **target of increasing share in total freight to ~45% by 2030**. **Three Dedicated Freight Corridors** namely East-West Corridor, East Coast Corridor and North-East Corridor **totaling to ~3893 km are planned to be completed by 2031.** The survey work for the corridors have already begun. A Delhi-Varanasi high speed corridor (855 km) is also in the works.

ROAD: The Cabinet Committee on Economic Affairs approved the implementation of an umbrella programme for the National Highways – **"Bharatmala Pariyojana Phase-I"** in its meeting held on 24-Oct-2017, for construction/ up-gradation of **National Highways of 34,800 kms length**, including 10,000 kms of balance road works under NHDP (National Highway Development Project) over a period of 5 years (2017-18 to 2021-22) at **an estimated outlay of Rs 5.35 trillion.**

Projects with aggregate length of ~13,171 km have already been awarded under Bharatmala Pariyojana (including residual NHDP Works) till Nov-20, while projects with length 2,587 km are currently under bidding. Additionally, work on preparation of Detailed Project Reports for ~ 13,233 km is under progress. *(Source: MoRTH website)*

MMLPs (Multi-model Logistics Parks): In India, the key reasons behind higher freight costs are *a) Unfavourable inter-modal mix, b) Inefficient fleet mix, c) Under-developed material handling infrastructure d) Under-developed road infrastructure and e) Procedural complexities.*

In Phase I, **MMLPs are proposed to be developed in 15 cities** with highest freight movement **(covering ~40% of the total road freight movement).**

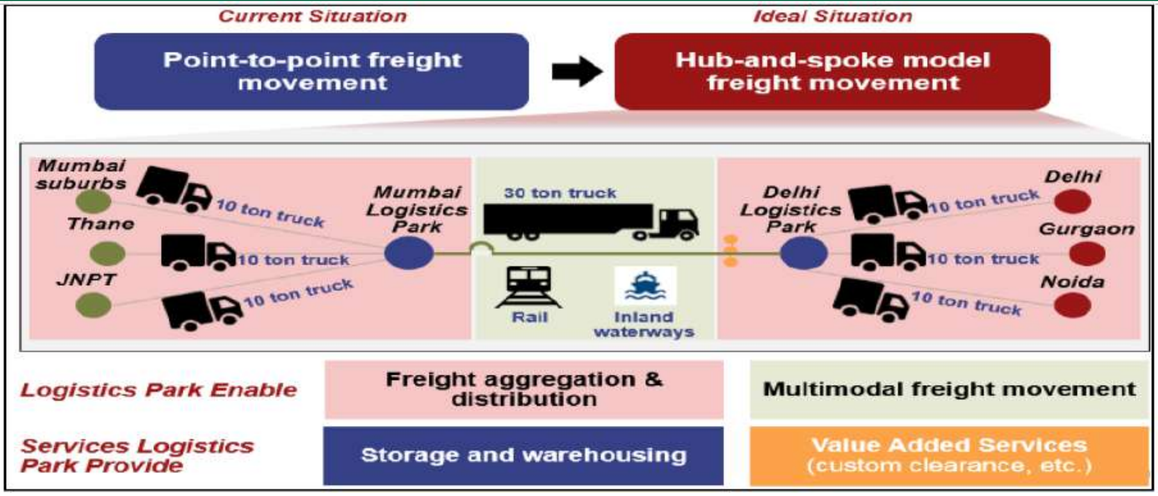
In 2016, the Govt. has set a target to double the length of highways from 96,000 to 200,000 km.

Logistics parks, in these 15 nodes, **will drive ~10% reduction in transportation cost** (by enabling freight movement on higher sized trucks and rail as larger sized trucks have ~60% lower freight cost compared to lower sized trucks and will **also result in ~20% reduction in freight vehicles.**

Development of logistics parks in the top 15 nodes **will require capital investment of ~Rs 329 billion.**

Industry Overview

Exhibit 26 - **MMLP Model**



Source: MoRTH

Formalization of Logistics Sector Through Regulatory Reforms

Since the introduction of GST, the average distance a truck is able to travel has increased by more than 150 km/ day. A survey by FICCI on the Ease of Business for Logistics found that 59% of companies in India cited reduced transportation times, post-GST, even with the intermittent roll-out of the e-way bill.

GST Implementation: After the **implementation of goods and services tax (GST) w.e.f. 01-Jul-2017** in India, the **states abolished border check-posts**, which were the key barrier against smooth movement of goods vehicles due to practice of collecting taxes at these borders. This **led to reduction in transit times of trucks by ~30%** and **reducing transport costs by ~3-7%.** Also, a change in optimal network design after GST has helped in forming bigger warehouses instead of small warehouses in every state, **leading to ~40% increase in inventory turnover.**

E-way bill system: India introduced the e-way bill system under the GST in April, 2018. Every registered business that is involved in the **inter-state movement of goods** with a **value exceeding Rs 50,000 is required to generate an electronic way (e-way) bill**, which is valid throughout India and thus eliminates the need for separate transit passes.

The e-way bill can be generated from the e-way portal, SMS, or through a mobile phone application. NHAI has also launched two apps, namely 'MyFASTag' and 'FASTag Partner' for e-toll collection.

The e-way bill mechanism is an **anti-tax evasion measure**. It is put in place to create an accounting trail on a common forum to **ensure that goods are transported in accordance with GST laws, and tax is paid for the supply of goods.** Every e-way bill generated is automatically updated in the GSTR 1 form of the supplier. E-way bills eliminate the hindrance of physical inspection of papers and goods at each border.

The **GST implementation has increased the cost of business for unorganized players** while strengthening the overall price value proposition for organized players. **Earlier, un-organized players were able to provide logistical services at a cheaper cost** compared to organized players, given the higher cost of compliance. The **organized players with pan-India presence were benefited** post GST implementation.

Industry Overview

Exhibit 27 - **Benefits of GST Implementation**

Benefits

- Improved transit time
- Simplified taxation
- Shift to organized industry Higher profitability
- Improved transit times and system efficiencies
- More data availability
- Effective data utilisation in policy making and strategic planning
- Higher profitability

Challenges

- High cost of IT implementation and reconfiguration of systems and processes
- Administrative overhead due to decentralized registration
- Restricted cash liquidity

Source: TCI Express Annual Report 2020

Initiatives like mandatory use of FASTag and the new Automotive Industry Standard (AIS-140) have made RFID tags and GPS/GSM trackers mandatory for all commercial vehicles.

GST reforms has created a demand for increased standardization to capture potential efficiency. In nutshell, the implementation of GST has created a common Indian market, improved tax compliance and governance, enhanced supply chain efficiencies and boosted investment and growth in the sector.

Infrastructure Status Granted to Logistics Sector

In Nov-17, the Government granted infrastructure status to the logistics sector in India. This has strengthened the prospects of the sector. The development has led to ***a) easy and economical financing for the industry, b) surge in private investments*** *and* ***c) growth of large format warehouses and multimodal logistics parks.*** The need for integrated logistics sector development has been felt for some time to **increase the competitiveness of Indian logistics in domestic and the export markets.**

Efficient Supply Chain key to 'Make in India' Initiative

In Sep-2014, the Government has **launched the 'Make in India' initiative with an aim to support the manufacturing sector** of the Indian economy and elevate its **contribution to GDP from the current 17% up to 25%.** Efficient logistics are a cornerstone for the continuation of India's economic development over the coming decades. The robust growth in manufacturing envisioned through the 'Make in India' initiative will demand high levels of logistical efficiency, which means that goods must not only be produced, they must also be efficiently transported to markets at reasonable prices.

Technical Integration To Increase Operational Efficiencies

Digitization and technology are the backbone of an efficient supply chain. In today's world, digitization is not an option, but a necessity. **Digitization, equipped with adequate technology, can be a solution to low productivity practices, high inventory costs, and inefficient urban distribution.** A digitized platform to integrate supply chain, right from demand forecasting to load consolidation and truck routing and dispatch scheduling, **can reduce the delivery time and costs.**

Latest technologies like **Artificial intelligence, Blockchain and the IoT** are required to bring breakthrough productivity gains in the supply chain network. Industry stakeholders have already made vigorous attempts at full use of these technologies. **Automation in packaging has helped industries reduce the workforce by ~20-30%**, which has curtailed losses due to labor migration.

Industry Overview

Exhibit 28 - **Technical Disruptions in Express Logistics Industry**

Big data service
- Forecast changes in volume and customer demands by analyzing original data
- Provides solutions based on real time data analysis for improving network operation, supply chains and customer relationship management

Cloud service
- Use of cloud computing services for software platform and infrastructure services
- Provides technical support such as large-scale computers for the internal operations of express enterprises

Internet of Things
- Streamline transport by using real time data and alerts to optimize delivery routes
- Monitor performance
- Quickly respond to delays or issues as they happen

On-demand marketplaces
- Improve efficiencies by disintermediation
- Address information asymmetry
- Facilitate price discovery

On Road, Integrated, Optimization and Navigation Software
- Real time planning of driver delivery routes by making use of a large amounts of data from online maps
- Optimization computation to save on delivery time and fuel consumption

Source: TCI Express presentation

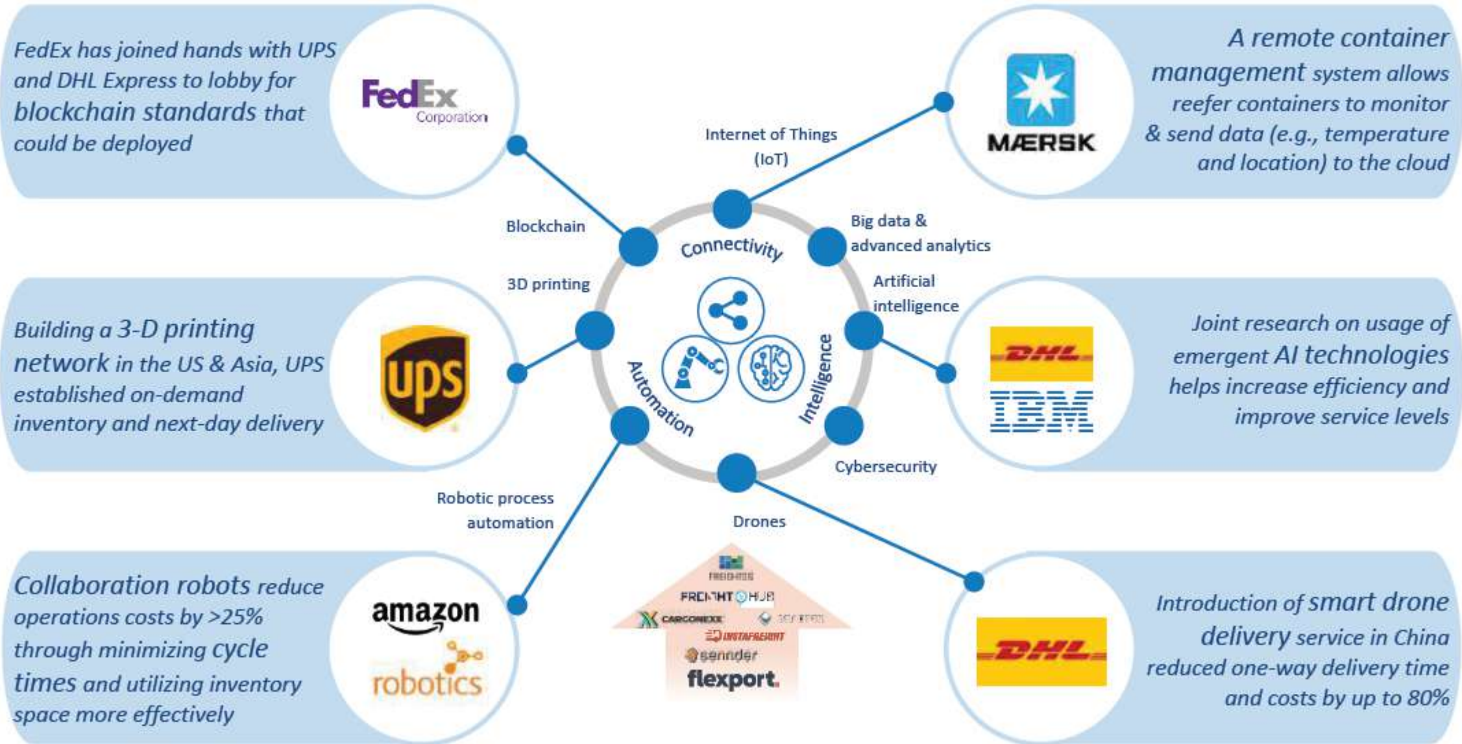
In case of disruption, **an end-to-end real-time visibility is required to enable quick action**. The entire supply chain needs to be connected by integrating physical networks with digital technology. The latest technology, such as geo-tagging, auto-capture and big data **enables collaboration, better forecasting, and traceability along the network**, which helps to monitor supply chains. **Technology-enabled forecasting helps reduce wastage along the supply chain** by allowing organizations to manage demand- and supply-side shocks.

The **domestic logistics industry is largely unorganized with presence of many small players**. The size of online and organized retail market is smaller compared to US and China, due to which the sector is lagging in technological adaptation. However, **Covid-19 has kick-started evolution in logistics sector.** The push due to the pandemic has led to faster adoption of technology, as it has disrupted the working of ~75% of the players in the sector. The crisis has **necessitated the redesign of current business models** and many firms have now started digitizing their operations.

Over the past couple of years, **structural reforms and tech-driven integration** have drastically enhanced the logistics efficiency in India. Today, a large number of **warehouses are equipped with state-of-the-art technologies from IoT** (Internet of Things) devices to **automated sorters and handlers**, which considerably **decrease the turn-around time (TAT)** in in-house logistics operations. The use of technology has also resulted in **improved Customer Support Services.**

Industry Overview

Exhibit 29 - **Impact of Technology on operations of Logistics Companies**



Source: Arthur D. Little report

Still, the domestic logistics sector is way behind in adopting technology and digitizing its operations. The slow adoption of supply chain technology, such as artificial intelligence, blockchain and the IoT, remains a major shortcoming. Organizations globally have adopted the latest technologies to ensure full visibility and real-time information on processes in the supply chain. Lack of digitization, inventory mismanagement and inaccurate demand predictions in the absence of technology contribute in large part to the competitiveness gap between India and its global peers.

Industry Overview

Outlook

The growth in the domestic logistics sector is likely to be ***driven by reviving domestic demand growth, supported by government reforms, transportation sector development plans, growing retail sales and the eCommerce sector.***

Further impetus is likely to be provided by the enhanced focus on the part of the Government in the manufacturing sector. **Manufacturing in India holds the potential to contribute up to 25%-30% of the GDP by 2025 (from 17% currently) which will drive the growth of the warehousing segment.**

E-commerce is another major segment which is expected to support growth of the logistics industry during the forecast period. With the e-commerce business gaining popularity in India, online freight platforms and aggregators are on the rise in the Indian logistics market, given the need for low entry barriers and less capital investment compared to setting up of an asset-based business model.

With increased private and government investment in the sector, India's **port capacity is likely to grow at a CAGR of 5% to 6% by 2022** and is expected **to add a capacity of 275 MT to 325 MT**. Further, **Indian Railways aims to increase its freight traffic from 1.1 billion tons in 2017 to 3.3 billion tons in 2030** whereas aided by the different factors the **freight traffic on Indian airports is likely to reach 17 million tonnes by FY40.**

The possibility of surface express to gain market share due to purchase of apparel, electronics, consumer durables, furniture and even industrial & commercial online nowadays.

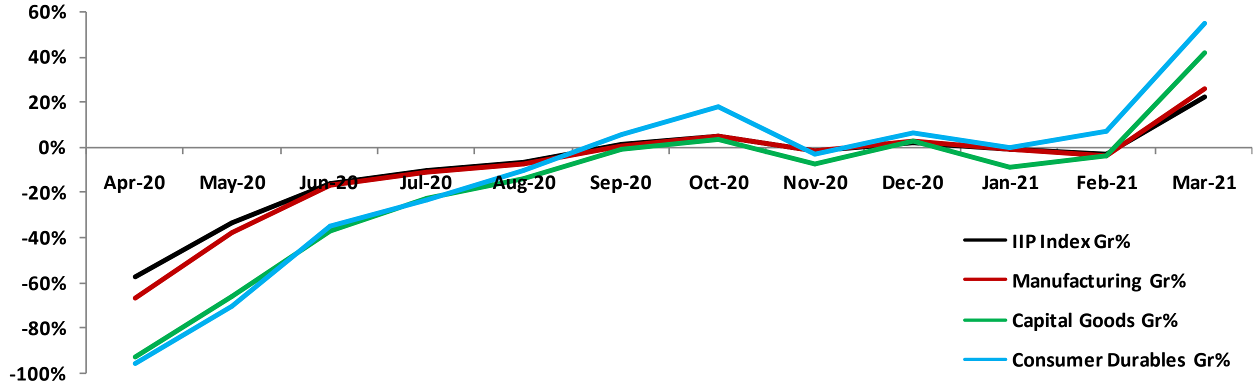
These developments, alongside others, other initiatives on the part of the government is likely to drive the growth of the Indian logistics industry.

However, lack of supporting infrastructure, automated material handling systems and skilled manpower, slow adoption of technology and high manual processes are some areas where the Indian air cargo industry needs to buck up as compared to its global peers.

A robust logistics industry can go a long way in boosting India's quest for being a manufacturing hub of the world, given that several initiatives like 'Make in India' have been launched by the government.

Key Economy Indicators

Exhibit 30 - **IIP Index Growth**

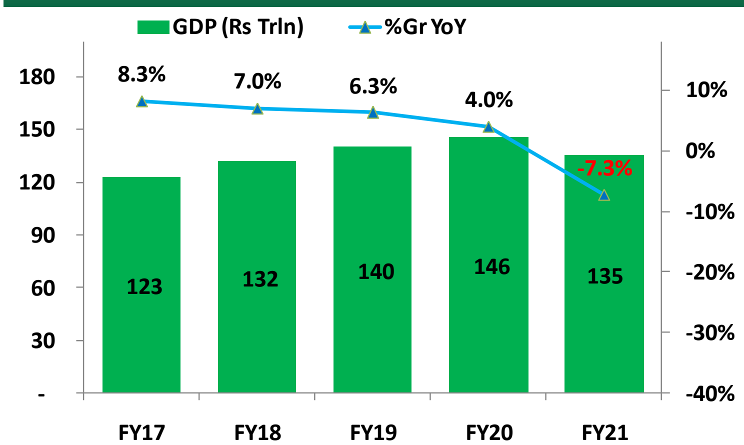


	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
IIP Index Gr%	-57.3%	-33.4%	-16.6%	-10.5%	-7.1%	1.0%	4.5%	-1.6%	2.2%	-0.9%	-3.4%	22.4%
Manufacturing Gr%	-66.6%	-37.8%	-17.0%	-11.4%	-7.6%	0.4%	4.5%	-1.6%	2.7%	-1.3%	-3.7%	25.8%
Capital Goods Gr%	-92.7%	-65.9%	-37.4%	-22.8%	-14.4%	-1.2%	3.2%	-7.5%	2.2%	-9.0%	-3.8%	41.9%
Consumer Durables Gr%	-95.7%	-70.3%	-34.8%	-23.7%	-10.2%	5.3%	18.1%	-3.2%	6.5%	-0.2%	6.6%	54.9%

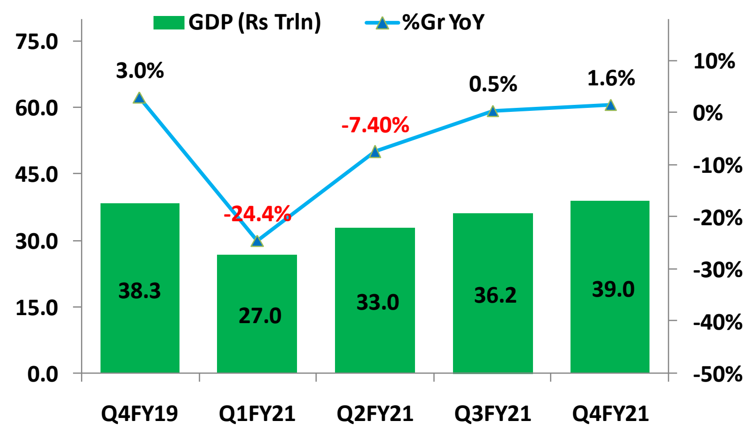
IIP grew 22.4% during the month of Mar-21, led by growth in Manufacturing goods

The IIP grew 22.4% during the month of Mar-21 *(Bloomberg Est. 20%)*, after declining 3.4% in Feb-21. The index itself was at level of 143.4 in Mar-21 compared to 129.6 in Feb-21, suggesting a robust recovery was underway until the 2nd wave of Covid -19 infections hit the economy. **For the month Mar-21, the growth in Manufacturing output was 25.8%.**
According to use based classification, the growth for **Consumer durables, Capital Goods, Infrastructure/ construction goods and Consumer non-durable stood at 55%, 42%, 31% and 2.3%, respectively.**

Exhibit 31- **India's GDP Growth**



Source: MOSPI, SMIFS Research



Source: MOSPI, SMIFS Research

India's FY21 GDP contracted 7.3%, lower than estimates due to recovery in Q4FY21 GDP growth

India's FY21 GDP registered a decline of 7.3% *(Bloomberg Est. -7.5%)* against a growth of 4% in FY20, as the imposition of strict nationwide lockdown during H1-FY21 led to sharp decline in Q1 & Q2 GDP at -24.4% and -7.4%, respectively. However, the **Q4FY21 GDP saw a positive growth of 1.6%** *(Bloomberg Est. 1%)* against a growth of 0.5% in Q3FY21 and 3% in Q4FY20. **Manufacturing grew by 6.9% in Q4FY21 compared to 1.7% last year; For the full year, the sector contracted by 7.2%.**

Key Risks

General economy slowdown

TCI Express's **business performance is linked with performance of the GDP**. A slowdown in GDP might impact the company's revenues.

Slowdown in key customer's industries, specially manufacturing sector

TCI Express **derives ~60% of the revenues from five key industries like Automobiles, Pharmaceuticals, Engineering, Life style and Electronics.** Any slowdown in the business from these industries may hamper the business performance.

Slowdown in SME sector

SMEs sector accounts for ~50% of TCI Express revenues. A **slowdown in demand from the sector may adversely affect the company's business** performance.

Competition from both organized & un-organized players

In India, logistics sector is highly fragmented with unorganized players dominating the market with ~95% of the share. The company has to compete with these players. Also there is competition from large organized players. **Increase in competition may impact margins and profitability of the company.**

Competition from railways to grow

The Railway has set an ambitious target of increasing share in total freight to ~45% by 2030 from ~30% in FY19. **Increase in competition from Railway may hamper the business .**

Company Overview

Business Description

Exhibit 32 - Express Services Offered

Source: TCI express Annual Report

TCI Express Ltd (TCI Express), headquartered in Gurugram (NCR), is the **leading express logistics company operating in Indian and International markets**, **providing Door-to-Door Express Distribution Services.** TCI Express is specialized in offering time definite solutions with focus on Tier II and Tier III cities. TCI Express has pioneered the concept of customer-oriented multi-technology and multi-specialist transport system.

TCI Express came into existence in 2016 with the demerger of TCI XPS from Transport Corporation of India Limited (TCIL). TCI XPS started its journey as the multi-specialist cargo division of TCIL in 1997. The Scheme of arrangement for demerger of the XPS undertaking of Transport Corporation of India Limited into TCI Express Limited was sanctioned by the Hon'ble High court of Telangana and Andhara Pradesh on 14th June, 2016 and the scheme became effective from the appointed date of 31st March 2016.

TCI Express has a **pan-India presence with a network covering 708 districts.** With more than **800 branches** and **28 strategically located sorting centers**, TCI Express possesses the **capacity of servicing 40,000+ pickup and delivery points** through its **5000+ containerized vehicles.**

Over the years, TCI Express has been successful in aggregating a wide range of services under one roof which enabled the Company to spread its operations across the globe. **TCI Express has marked its presence in more than 200 countries through its large IATA *(International Air Transport Association)* approved agent network.** ***IATA represents ~290 airlines from 120 countries, which is ~82% of total air traffic.***

TCI Express has **demonstrated steady growth in top-line over FY17-20**, which grew from Rs 7,503 million in FY17 to Rs 10,320 in FY20, **registering a CAGR of ~11.2% over the period.** The Net revenues during FY21 were down 18% YoY at Rs 8,440 million, as volumes declined ~21% YoY as business was hampered during the H1-FY21 owing to lockdowns due to Covid-19 pandemic.

According to our estimates, TCI Express's Revenue, EBITDA and PAT are expected to grow at a CAGR of ~27%, ~33% and ~32% over FY21-23E at Rs 13,514 million, Rs 2,381 million and Rs 1,760 million, respectively.

Company Overview

Business Description

Exhibit 33 - Logistics Infrastructure

500 Express Routes	**800** Company Branches
28 Sorting Centres	**2500** Feeder Routes
50 Zonal Offices	**8** Regional Offices
708 Districts Served	

TCI Express has a unique business model compared to peers. Over the last few years, it has built an **extensive network of more than ~800 branches** across the country. Unlike peers, TCI Express **doesn't operate on franchise model and all the branches are owned by the company.**

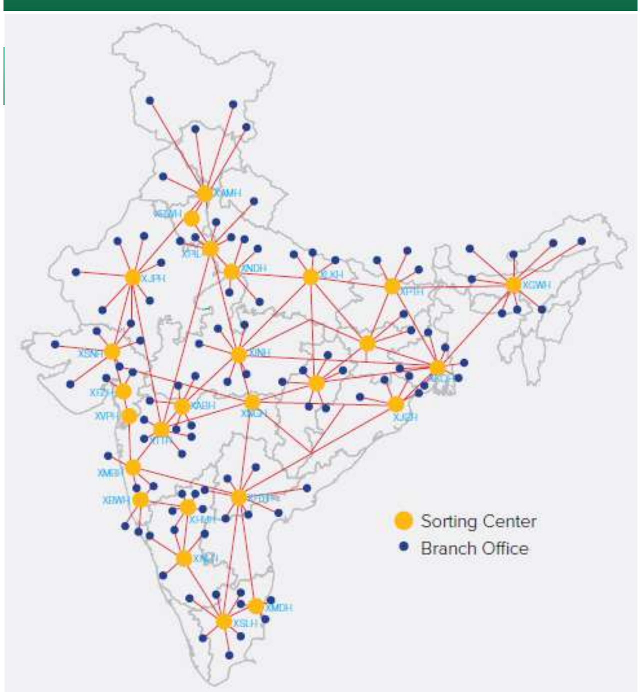
The staff working on these branches are on the payroll of the company. All the branch operations are under control of the corporate office.

As the branch infrastructure usually taken on lease, it help the company to continue with its strategy of asset light model. The initial set-up cost and operating expenses are usually low, with break-even in ~2 months of the commencement of a new branch. ***The company has a target to add ~100 branches every year for the next couple of years.***

Having own branches at several location with company staff help TCI Express to target customers easily and extract higher business from the market. The company follows a 'rate card' across its branches.

The extensive domestic foot print of the company includes 8 regional and 50 zonal offices.

Exhibit 34 - Express Network (B2B Hub & Spoke Network)



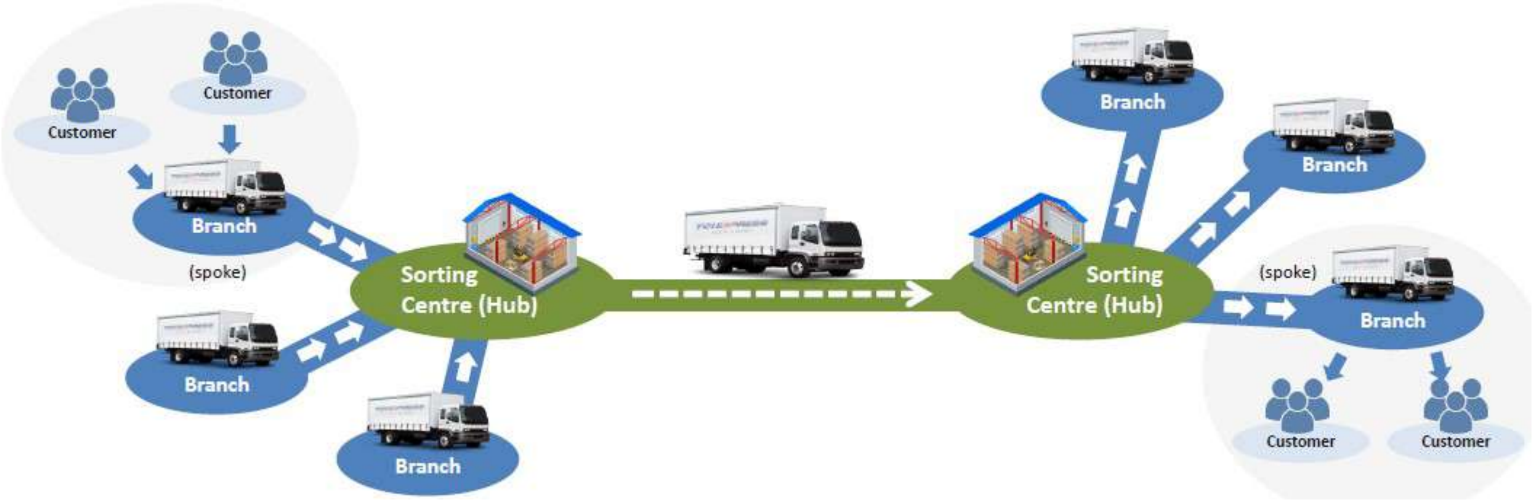
Apart from having vast network of branches, TCI Express **has 28 Sorting Centers strategically located across the country.**

TCI Express **has a large fully containerized fleet (~5,000 vehicles) of Express, Feeder and Service Route Vehicles, which connects with over 40,000+ pick-up and delivery locations,** respectively. All the vehicles are GPS enabled for real time tracking.

Source: TCI Express presentation

Company Overview

Exhibit 35 - **Hub and Spoke Model**



Source: TCI Express presentation

Backed by an extensive network of company-owned branches, TCI Express **has built an effective Hub & Spoke distribution model** through its well-spread feeder (2500+) and service route network.

Further, the Company **has set up a dedicated Customer Service department** to ensure a quick and timely response to different customer queries and **effective online tracking of cargo movement, which allows them to know the location of their package at any given time.**

Technology has always been the backbone of the Company's customer solutions. **TCI Express has associated with different technology partners** to explore new technologies within the logistics sector. The **technology-led approach has made it easier for the company to provide innovative solutions** to the customers while being transparent.

Exhibit 36- **Sectors Served by the company**

Source: TCI Express Annual Report

Company Overview

Services and Offerings

Services	Offerings
Surface Express	
Solutions for customer's express needs by providing door-step pickup and delivery, along with offering consumer friendly value added services.	*•Express pickup and delivery in India at 40,000+ Locations* *•Day-definite delivery* *•Cash on delivery* *•IT integration with customers* *•Sunday and holiday deliveries*
Domestic Air Express	
24x7 customer services as well as time sensitive express deliveries. Deliveries to all metro cities (being done in 24 hours) and mini metros and A-class cities (in 48 hours).	*•Door-to-Door / Door-to-Airport services* *•Airport-to-Airport / Airport-to-Door services* *•Multimode services (Unique combination of air and surface modes)* *•Unique arrangement of space with all domestic carriers* *•Collection on Delivery (COD)* *•Sunday and holiday services* *•Late pickup and deliveries*
International Air Express	
Time sensitive movement of small packages (samples) and Commercial shipments from all major ports of India. Service extends to around 208 countries across the globe.	*•Free 7 days storage facility at origin locations in own sorting centers for export consignments* *•3rd country shipment services* *•Pickup from Exporter's premises arranged for port-to-port shipments* *•Value added services like AD Code Registration, Issue of Country of Origin Certificate, Legalization of Documents, Fumigation, GSP Certificate, etc.* *•Charter Services provided* *•Consolidation of shipments undertaken to help the exporters* *•Urgent deliveries of shipments by hand through trained manpower provided under First Flight Out Service* *•Bulk Mailer Services are provided with customization to help exporters*
Reverse Express	
Reverse logistics services being offered in an efficient and economical manner by way of transfer of goods from location of the end user to that of the manufacturer.	*•Pickup from anywhere in India from 3,000+ points* *•Centralized monitoring* *•To and fro movement of goods for repair and return (B2B / B2C)* *•Key MIS as per customer needs*
E-Commerce	
In-city distribution of goods through GPS enabled fleet of Route Vehicles which facilitates optimum on time delivery.	*•Vendor to warehouse and inter warehouse* *•Packaging material distribution* *•Warehouse to customer* *•Fulfillment centre to last mile* *•Intra-city distribution* *•Cash collection* *•IT integration with customers* *•Sunday and holiday deliveries*

Source: TCI Express Annual Report

Key Management Team

Mr. D P Agarwal, Vice-Chairman and Managing Director

Mr. D P Agarwal is the Vice-Chairman and Managing Director of TCI. Mr. Agarwal has been associated with the transport industry for more than 51 years. He has been contributing in developing the unorganized logistics sector into an organized one.

Mr. Agarwal is also associated with various Chambers of Commerce including CII, FICCI & PHDCCI. He also takes active participation in many social and philanthropic activities for the common good.

Mr. Chander Agarwal, Director

Mr. Chander Agarwal is the Director of TCI. A Bachelor of Science in Business Administration from 1996 to 2001 from Bryant College, Smithfield, RI, Mr. Agarwal joined TCI as Summer Intern and worked in various departments including operations, logistics and marketing etc. thereby getting fair amount of exposure to the key functions in the Company.

His hands-on experience with Transfreight USA, a 3PL specializing in 'lean logistics' for Toyota Motor vehicles, USA, has given him unmatched knowledge of the Supply Chain Management. Currently he is spearheading Group TCI's international expansion across Asia, Latin America & Africa.

Mr. Pabitra Mohan Panda, Chief Operating Officer (COO)

Mr. Pabitra Mohan Panda, is Chief Operating Officer (COO) of the Company, effective from August 7, 2019. He is a Post Graduate in Computer Applications and Statistics. He has joined TCI Group in the year 1998 and has a distinguished service record of 22 Years in the Company. Prior to such elevation as COO, he was working as Regional Manager-Delhi Region.

Mr. Mukti Lal, Chief Financial Officer (CFO)

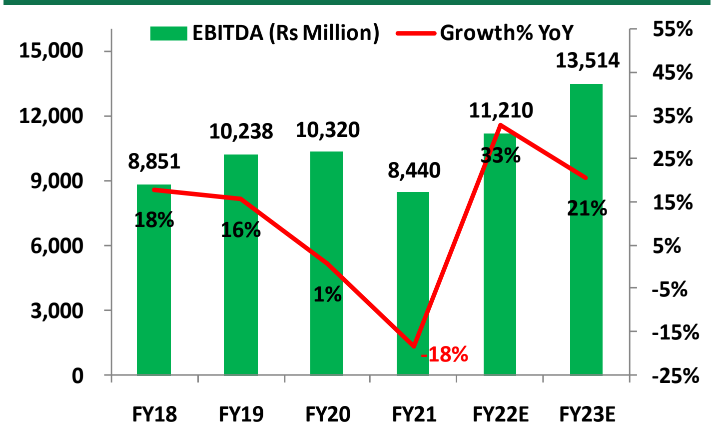
Mr. Mukti Lal is the Chief Financial Officer at TCIEXPRESS. He is a qualified Chartered Accountant and has been associated with Transport Corporation of India Limited (the Demerged Company) in various capacities for last 13 years. He was working as CFO-XPS, Division of Transport Corporation of India Limited. He is a finance professional with over a decade of experience spanning the entire gamut of finance and had played major role in overall strategy and corporate governance.

Mr. Girish Dua, Chief Marketing Officer

Mr. Girish Dua is a Management graduate and a Pharmacist, with over 20 years of experience. He has a strong background in Sales and Marketing and he drives himself to achieve and produce concrete results. He enjoys reading, and the knowledge and perspective contributed to strengthen his marketing skills. He always thrives on "Out of the Box" thinking for most complex situations. Ethical, Self-motivated, Conscientious Leader is what defines him the best.

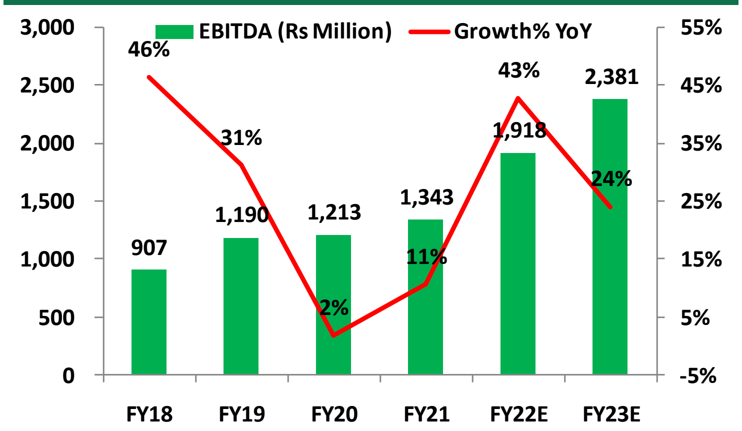
Key Performance Indicators

Exhibit 37: **Revenue CAGR expected at ~27% (FY21-23E)**



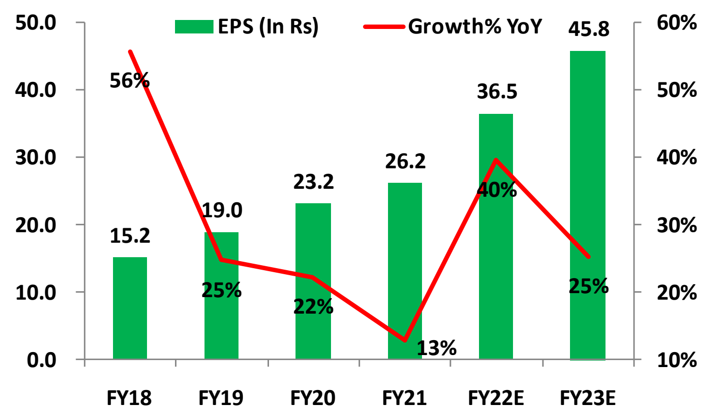
Source: Company Data, SMIFS Research

Exhibit 38: **EBITDA expected to grow at ~33% CAGR (FY21-23E)**



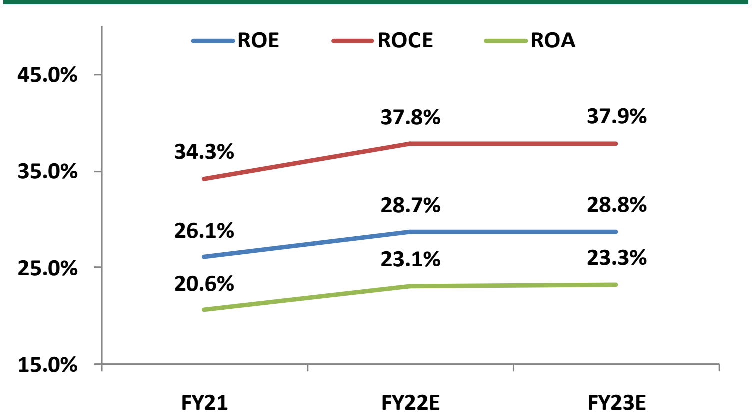
Source: Company Data, SMIFS Research

Exhibit 39: **EPS expected to grow at CAGR of ~32.3% (FY21-23E)**



Source: Company Data, SMIFS Research

Exhibit 40: **Return Ratios to improve over FY21-23E**



Source: Company Data, SMIFS Research

Outlook and Valuation

TCI Express Ltd, headquartered in Gurugram (NCR), is the **leading express logistics company** operating in Indian and International markets, **providing door-to-door Express Distribution Services.** TCI Express **came into existence in 2016** with the demerger of TCI XPS from Transport Corporation of India Ltd (TCIL). Over the years, TCI Express has built an **extensive network of more than 800 branches across the country covering 708 districts.** The company possesses the **capacity of servicing 40,000+ pickup and delivery points through its 5000+ containerized vehicles.** TCI Express **adopts a unique hub-and-spoke model fulfilling 2,500 feeder routes through its 500 express routes and 28 strategically located Sorting Centers.** ***The network, efficiencies built over the years has led to outpace the growth in profitability (~28% CAGR) over revenue growth (~3% CAGR) in FY17-21.***

Since its establishment, TCI Express has **maintained an 'Asset light model and refrained from taking ownership of the fleet. The company through regular price hikes, has been able to pass on the increase in fuel cost to the customers. This has helped company to continuously improve its gross margins over the years.**

TCI Express's revenue stream is well balanced between the SMEs and corporate customers. **Being present mainly in B2B Express segment, the company's business performance has also shown resilience during the current pandemic situation due to Covid 19, compared with companies operating in B2C segment.**

The company has **plan to set-up new sorting center in Kolkata and Chennai. It has a planned capex of Rs 1,000 million in FY22 towards automation and setting up of new sorting centers. This will result in shorter TAT (Turnaround Time), higher capacity utilizations, enhanced customer satisfaction, increase operational efficiencies and profitability going forward.**

Logistics sector plays an important role in the growth of the economy of India. The Government led reforms, transportation sector development plans, progress in manufacturing, growing retail and FMCG sales and the eCommerce sales are expected to drive the logistics sector growth in India. In the Union Budget 2020-21, the Government has given a massive push to the **infrastructure sector by allocating ~Rs 1.7 trillion** for the transport infrastructure. The development of logistics infrastructure, such as ***dedicated freight corridors, multi-model logistics parks, trade warehousing zones, port modernization and container freight stations*** will also go a long way in improving efficiencies.

The Government of India aims to increase the manufacturing share in GDP to ~25-30% by FY25 from ~17% currently. With an objective to promote the domestic manufacturing sector, the Government has announced several PLI Schemes. As TCI Express derives major chunk of its revenues from SMEs in the manufacturing sector, it is expected to be a key beneficiary of the growth in Indian manufacturing sector.

According to our estimates, TCI Express's Revenue, EBITDA and PAT are expected to grow at a CAGR of ~27%, ~33% and ~32% over FY21-23E at Rs 13,514 million, Rs 2,381 million and Rs 1,760 million, respectively.

Despite operating in a highly fragmented and competitive domestic logistics industry, dominated by un-organized players (~95% share), TCI Express has managed to carved a market share of ~5% in the space and successfully built a strong foothold in the B2B segment, with a focus on SMEs clients (~50% revenue share). Continued focus and investments on technology has enabled company to stay ahead of the competition and deliver value added services to clients. In Q4FY21, it has launched 'Cold Chain Express' and 'C2C Express services'. The company to further strengthen its efficiencies and capabilities through automation, setting up new sorting centers and adding new branches.

We initiate coverage on TCI Express with a "STRONG BUY" rating and price target of Rs 1832, over a period of 12-18 months, valuing the stock at PE of 40x FY23E EPS of Rs 45.8. At our target price, the stock offers an upside of ~23.4%.

Financial Details

Income Statement (Consolidated)					In Rs Mn
Particulars (Y/E March)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Net Revenue	**10,238**	**10,320**	**8,440**	**11,210**	**13,514**
Operating Expenses	7,534	7,342	5,667	7,494	8,994
Gross Profit	**2,704**	**2,978**	**2,773**	**3,716**	**4,521**
SG&A	1,514	1,765	1,429	1,798	2,140
EBITDA	**1,190**	**1,213**	**1,343**	**1,918**	**2,381**
Depreciation & Amortisation	65	78	90	127	160
Other Income	32	44	77	61	99
EBIT	**1,157**	**1,179**	**1,330**	**1,852**	**2,319**
Interest Cost	38	9	8	6	6
PBT	**1,119**	**1,170**	**1,322**	**1,846**	**2,313**
Tax Expenses	390	279	316	441	553
PAT	**728**	**891**	**1,006**	**1,404**	**1,760**

Balance Sheet (Consolidated)					In Rs Mn
Particulars (Y/E March)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Share Capital	77	77	77	77	77
Reserves & Surplus	2,595	3,296	4,262	5,359	6,715
Networth	**2,672**	**3,373**	**4,339**	**5,436**	**6,792**
Total Borrowings	**87**	**28**	**10**	**-**	**-**
Net deferred tax liability	55	41	54	54	54
Other non-current liabilities	-	1	1	1	1
Trade payables	724	620	752	899	1,131
Other Current Liabilities	253	252	281	317	415
Total Equity & Liabilities	**3,790**	**4,315**	**5,437**	**6,707**	**8,393**
Net Block+CWIP	**1,729**	**1,944**	**2,400**	**3,269**	**4,102**
Intangible assets	15	22	18	19	20
Other non-current assets	115	129	291	352	441
Trade Receivables	1,631	1,658	1,695	1,566	1,970
Cash and Cash Equivalents	171	126	272	742	1,060
Other Current assets	128	438	762	759	800
Total Current Assets	**2,061**	**2,372**	**3,037**	**3,438**	**4,291**
Total Assets	**3,790**	**4,316**	**5,437**	**6,707**	**8,393**

Source: Company Data, SMIFS Research

Financial Details

Cash Flow Statement (Consolidated)					In Rs Mn
Particulars (Y/E March)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
PBT	**1,119**	**1,170**	**1,322**	**1,846**	**2,313**
Depreciation & Amortisation	65	78	90	127	160
Interest & dividend Income	-0	-7	-32	-14	-37
Interest expense	38	9	8	6	6
Changes in working capital	-50	-125	90	253	-204
Taxes Paid	-388	-317	-284	-441	-553
Others	-8	8	-5	-	-
Cash Flow from Operating Activities	**776**	**816**	**1,189**	**1,777**	**1,685**
Capital Expenditure	-193	-188	-545	-997	-994
Investments	-13	-283	-439	-	-
Loans & advances	-51	-131	-9	-	-
Interest & Dividend Received	0	7	32	14	37
Cash Flow from Investing Activities	**-256**	**-595**	**-960**	**-984**	**-957**
Net issuance of equity	10	15	22	-	-
Net borrowings	-309	-59	-20	-10	-
Dividend paid (including tax)	-134	-213	-77	-307	-404
Interest expense	-38	-9	-8	-6	-6
Cash Flow from Financing Activities	**-470**	**-266**	**-83**	**-324**	**-410**
Net change in cash	49	-45	146	470	318
Opening cash balance	122	171	126	272	742
Closing Cash Balance	**171**	**126**	**272**	**742**	**1,060**

Source: Company Data, SMIFS Research

Financial Details

Key Ratios (Consolidated)					
Particulars (Y/E March)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Growth (%)					
Net Revenue	16%	1%	-18%	33%	21%
Gross Profit	23%	10%	-7%	34%	22%
EBITDA	31%	2%	11%	43%	24%
PAT	25%	22%	13%	40%	25%
Margins (%)					
Gross Margin	26.4%	28.9%	32.9%	33.2%	33.5%
EBITDA Margin	11.6%	11.8%	15.9%	17.1%	17.6%
PBT Margin	10.9%	11.3%	15.7%	16.5%	17.1%
PAT Margin	7.1%	8.6%	11.9%	12.5%	13.0%
Per Share Data (In Rs)					
EPS	19.0	23.2	26.2	36.5	45.8
BVPS	69.7	87.9	112.9	141.4	176.7
CFS	20.2	21.3	30.9	46.2	43.8
DPS	3.0	4.0	2.0	6.6	8.7
No. of Shares	38.3	38.4	38.4	38.4	38.4
Profitability Ratios (%)					
RoE	30.7%	29.5%	26.1%	28.7%	28.8%
RoCE	44.1%	38.1%	34.3%	37.8%	37.9%
RoA	20.2%	22.0%	20.6%	23.1%	23.3%
Valuation Ratios (x)					
P/E	78.3	64.0	56.7	40.6	32.4
P/BV	21.3	16.9	13.2	10.5	8.4
EV/ EBITDA	47.9	47.0	42.3	29.4	23.5
P/CFS	73.3	69.7	48.0	32.1	33.9
Turnover Ratios (x)					
Debtors Turnover	6.4	6.3	5.0	6.3	6.3
Creditors Turnover	11.0	10.9	8.3	10.9	10.9
Working Capital Turnover	11.5	7.7	5.0	6.3	5.7
Asset Turnover	2.8	2.5	1.7	1.8	1.8
Fixed Asset Turnover	6.2	5.8	4.2	4.2	3.8

Du-Pont Analysis (Consolidated)					
Particulars	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
PAT Margin	7.1%	8.6%	11.9%	12.5%	13.0%
Asset Turnover(x)	2.8	2.5	1.7	1.8	1.8
Financial Leverage(x)	1.5	1.3	1.3	1.2	1.2
ROE	**30.7%**	**29.5%**	**26.1%**	**28.7%**	**28.8%**

Source: Company Data, SMIFS Research

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