

TCI Express (TCIEXP)

Growth continues unabated...

- Revenues grew 22% YoY to ₹ 248 crore, in line with I-direct estimate of ₹ 244 crore
- EBITDA margins increased 180 bps to 10.9% (I-direct estimate: 10.6%) mainly due to lower than estimated other expense to sales ratio (5.3% vs. estimated 6.5%). Robust revenue growth coupled with margin expansion led absolute EBITDA growth of 46% YoY to ₹ 27 crore and came in line with I-direct estimate of ₹ 26 crore
- Reported PAT grew 33% YoY to ₹ 16 crore (I-direct estimate: ₹ 17 crore). The strong operational performance was offset, to a certain extent, by a higher tax rate (35% in Q1FY19 vs. 30% in Q1FY18)

Growth momentum continues on lines of last few quarters

TCI Express has seen its fortunes revive post GST implementation, where revenues, EBITDA and PAT growth reached 20%, 40-50% and 35-50%, respectively. The performance has continued unabated even during the implementation of E-Way bill, which shows the readiness of the IT infrastructure and pro-activeness of management to deal with the dynamic environment surrounding logistics sector. Also, post the TCI de-merger event, the company is focused on a single express segment (that deals with time-sensitive cargo). Hence, the client is able to better identify with the brand. We expect revenue, EBITDA, PAT CAGR of 19%, 26%, 26%, respectively, in FY18-20E. EBITDA margin expansion is expected to continue due to operating leverage and new minimum pricing strategy introduced for new clients. Also, the company has included diesel cost as a pass through on both revenue and cost side de-risking it from fluctuations from fuel price.

GST led shift from unorganised to organised in medium to long term

Post the GST bill implementation, the clients have been able to benefit from input tax credit over the tax changed on transport of goods and services, when they deal with a tax compliant logistics player. It is expected that over the medium to longer term GST & E-way bill would result in a shift of market share in favour of organised players as unorganised players are expected to become less competitive owing to increased cost of compliance enabling opportunity for larger organised players to capture higher market share on a sustained basis. Also, warehousing consolidation due to removal of tax arbitrage at state level would lead to enhancing the lead distances for road transportation companies providing impetus to revenue growth.

Asset light model, strong FCF generation; attractive bet

TCI Express has 28 hubs, 550 branches and a fleet of 4000 vehicles at its disposal with no ownership. Given the benefits of reduced delivery time, growing preference for just-in-time approach (reducing inventory costs), minimisation of loss of sale opportunities and rising end-consumer demand for quality logistics services, express delivery services are increasingly becoming the preferred mode of logistics for a large number of users. Low leverage, a robust growth trajectory and high core return ratios (FY20E RoCE is at 36% and a 2% FCF yield), position TCIEXP as one of the preferred picks in the logistics space. We value TCIEXP at 32x P/E on an estimated EPS of ~₹ 24/share (FY20E) with a target price of ₹ 780. We have a **BUY** recommendation on the stock.

Rating matrix	
Rating	: Buy
Target	: ₹ 780
Target Period	: 12-18 months
Potential Upside	: 21%

What's changed?	
Target	Changed from ₹ 660 to ₹ 780
EPS FY19E	Changed from ₹ 17.4 to ₹ 19.4
EPS FY20E	Changed from ₹ 22 to ₹ 24.3
Rating	Unchanged

Quarterly performance					
	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenue	247.6	203.2	21.9	249.3	(0.7)
EBITDA	27.0	18.5	46.0	28.4	(5.1)
EBITDA (%)	10.9	9.1	180 bps	11.4	-51 bps
PAT	16.1	12.1	33.0	17.8	(9.5)

Key financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Revenues	750.3	885.1	1,062.1	1,253.3
EBITDA	61.9	90.7	116.8	144.1
Net Profit	37.5	58.6	74.4	93.1
EPS (₹)	9.8	15.3	19.4	24.3

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	65.9	42.1	33.2	26.5
Target P/E	79.7	51.0	40.1	32.1
EV / EBITDA	40.3	27.6	21.1	16.8
P/BV	15.4	11.9	8.8	6.6
RoNW (%)	26.4	31.9	30.5	28.4
RoCE (%)	31.9	38.3	37.7	36.0

Stock data	
Particular	Amount
Market Capitalization (₹ Cr)	2,470.4
Total Debt (FY18P) (₹ Cr)	39.8
Cash and Investments (FY18P) (₹ Cr)	12.2
EV (₹ Cr)	2,498.0
52 week H/L	645 / 284
Equity capital (₹ Cr)	7.7
Face value (₹)	2.0

Price performance				
	1M	3M	6M	1Y
Blue Dart Express	-1.3	-0.9	-21.9	-14.3
Gati Ltd	45.5	-4.2	-7.3	-6.0
Vrl Logistics	6.4	-17.2	-19.2	6.9
Tci Express Ltd	14.4	25.5	30.9	14.5

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Variance analysis

	Q1FY19	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Comments
Revenue	247.6	243.8	203.2	21.9	249.3	-0.7	In line with estimates, growth momentum remained in sync with last few quarters, in spite of the changing environment around logistics sector (GST, E-Way bill, etc)
Operating expenses	186.7	182.4	155.5	20.1	182.2	2.5	
Employee Expenses	20.7	19.8	17.0	21.9	20.2	2.3	
Other Expense	13.2	15.8	12.3	8.0	18.5	-28.3	
Total Expense	220.6	218.0	184.7	19.5	220.9	-0.1	
EBITDA	27.0	25.8	18.5	46.0	28.4	-5.1	
EBITDA Margin (%)	10.9	10.6	9.1	180 bps	11.4	-51 bps	Higher margins on account of improved fleet utilisation levels
Depreciation	1.5	1.4	1.2	23.9	1.5	-5.8	
Interest	1.2	1.5	0.5	120.4	1.2	0.0	
Other Income	0.5	1.0	0.5	10.9	0.6	-15.0	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	24.8	23.8	17.2	44.2	26.3	-5.6	
Total Tax	8.7	7.1	5.1	70.9	8.5	2.7	
PAT	16.1	16.7	12.1	33.0	17.8	-9.5	Robust operational performance resulting in PAT growth

Source: Company, ICICI Direct Research

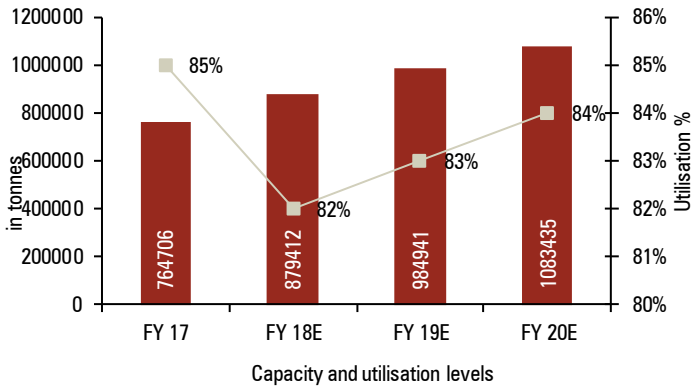
Change in estimates

(` Crore)	FY 17	FY18	FY19E			FY20E			Comments
			Old	New	% Change	Old	New	% Change	
Gross Revenue	750.3	864.5	1,005.9	1,062.1	5.6	1,175.8	1,253.3	6.6	Estimates revised due to continued strong momentum in volumes
EBITDA	61.9	90.7	108.8	116.8	7.4	137.5	144.1	4.8	
EBITDA Margin (%)	8.3	10.5	10.8	11.0	20 bps	11.7	11.5	-20 bps	
PAT	37.5	58.6	66.7	74.4	11.6	84.4	93.1	10.3	PAT estimates revised upwards due to strong operational performance and higher other income (due to rising FCF)
EPS (`)	9.8	15.3	17.4	19.4	11.7	22.0	24.3	10.5	

Source: Company, ICICI Direct Research

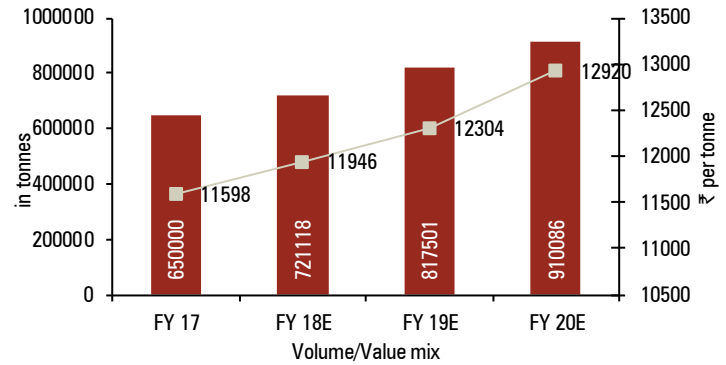
Company Analysis

Exhibit 1: Higher capacity maintaining existing utilisation levels...



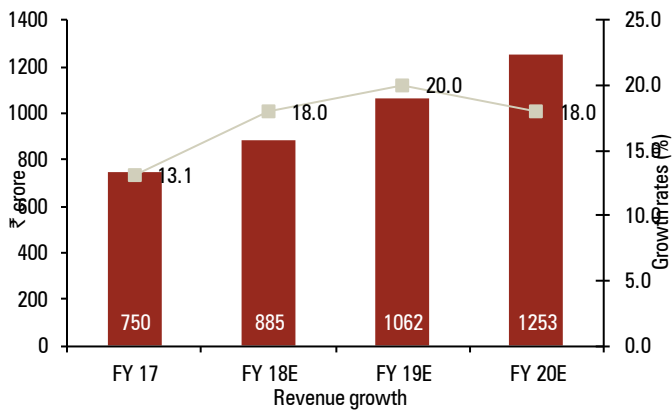
Source: Company, ICICI Direct Research

Exhibit 2: Volumes/value on uptrend...



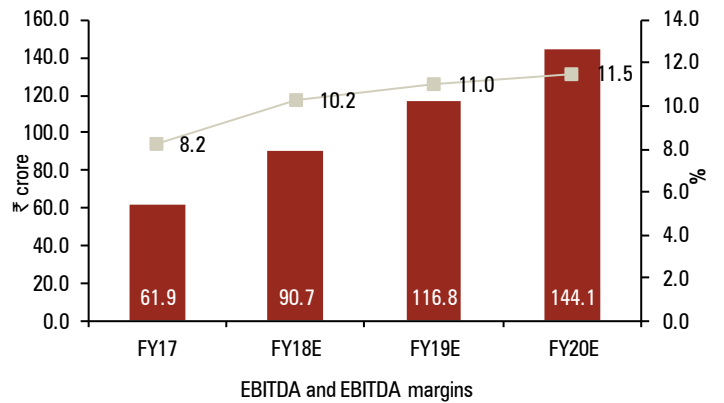
Source: Company, ICICI Direct Research

Exhibit 3: Revenue trend



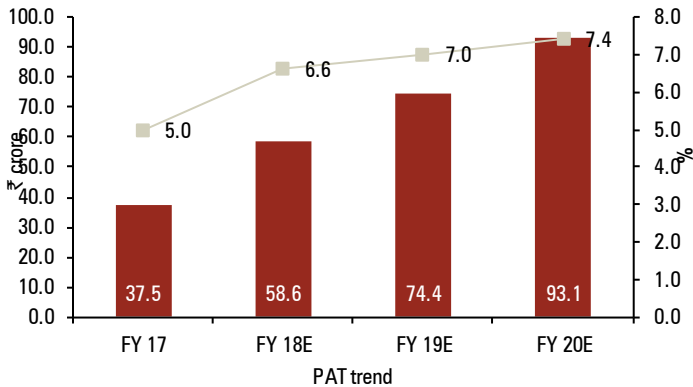
Source: Company, ICICI Direct, Research

Exhibit 4: EBITDA & EBITDA margin trend



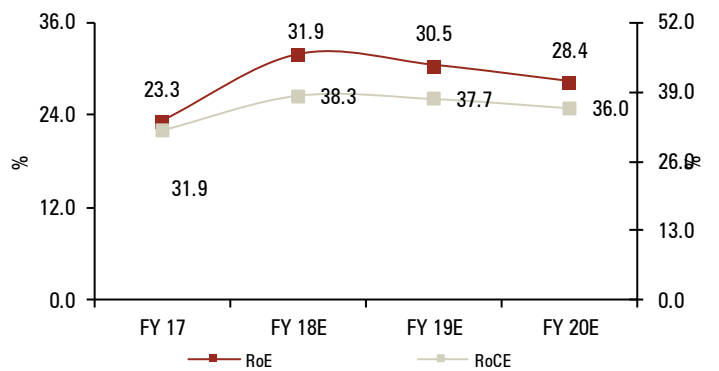
Source: Company, ICICI Direct, Research

Exhibit 5: PAT & PAT margin trend



Source: Company, ICICI Direct, Research

Exhibit 6: Return ratios trend



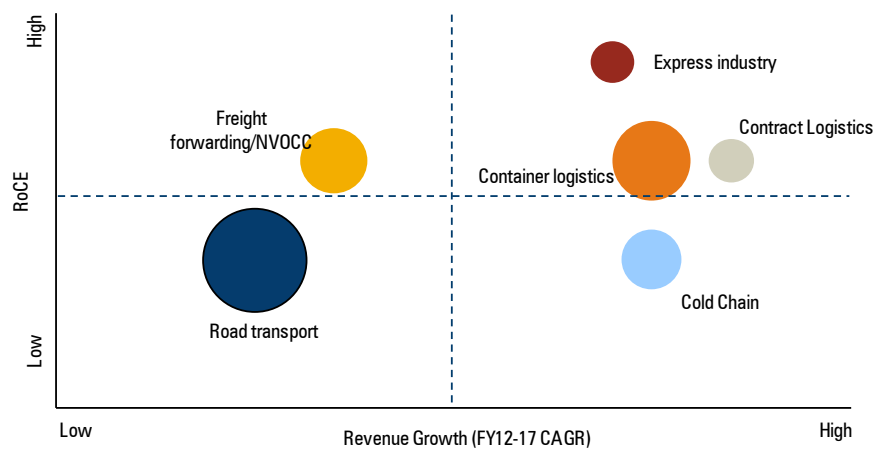
Source: Company, ICICI Direct, Research

Valuations

Preeminent business model to command better multiples...

The wide variety of services provided by express players makes it difficult for a single entity to manage. Following this, players like Gati KWE, BlueDart and TCI Express have focused on client management, line haul circuit, value added services and technology. Alternately, these players have leveraged their goodwill in the market thereby collaborating with a number of regional players outsourcing majority of its non-core activities like trucking, last mile delivery. The strategy has given these players enhanced coverage while at the same time keeping their balance sheet light. Moreover, higher EBITDA is the consequence of higher realisations on the back of speed and accuracy. The dual benefit positions the express business in the top quadrant of our logistics business model matrix, which represents high growth and high RoCE.

Exhibit 7: Express remains in top quadrant of growth/RoCE matrix...



Source: FSC DRHP, ICICI Direct Research, *Size of bubble represents industry size

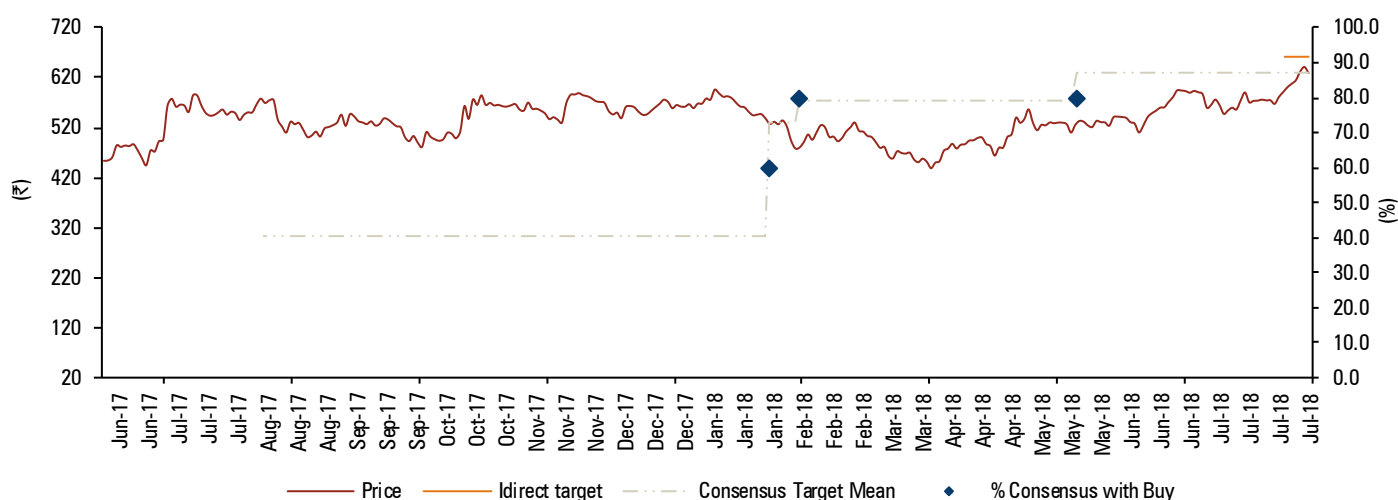
At the current market price of ~₹ 625, TCIEL is trading at 16x on EV/EBITDA and 26x FY20E EPS. Near-term financials, in our view, do not entirely capture the high revenue growth opportunity and huge potential for improvement in TCIEL's profitability metrics. Considering the structural changes, strong competitive positioning, focused growth approach and future growth prospects, we believe TCIEL is the next best bet after BlueDart. We ascribe 32x on FY20 EPS of ₹ 24 and arrive at a target price ₹ 780 with a **BUY** recommendation.

Exhibit 8: Valuation compared to peers

Year	Sales (₹ Crore)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	750.3	(76.0)	9.8	8.8	65.9	40.3	26.4	31.9
FY18E	885.1	18.0	15.3	56.3	42.1	27.6	31.9	38.3
FY19E	1,062.1	20.0	19.4	27.0	33.2	21.1	30.5	37.7
FY20E	1253.3	18.0	24.3	25.1	26.5	16.8	28.4	36.0

Source: ICICI Direct Research

Recommendation history vs. Consensus estimate



Source: Bloomberg, Company, ICICI Direct Research, * de-merger business listed in December 2016, Initiated coverage on 25th January, 2018

Key events

Date	Event
Oct-15	Name change: "TCI Properties Pune Ltd" to "TCI Express Ltd"
Aug-16	Announces demerger of XPS division
Dec-16	Listing of equity shares of TCI Express Ltd

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Change(m)
1	Bhoruka Finance Corporation of India, Ltd.	30-Jun-18	20.8	8.0	0.0
2	Bhoruka International Pvt. Ltd.	30-Jun-18	13.8	5.3	0.0
3	TCI Group	30-Jun-18	8.7	3.3	0.0
4	Agarwal (Dharpal P.)	30-Jun-18	7.6	2.9	0.0
5	Agarwal (Chander)	30-Jun-18	2.7	1.1	0.0
6	Agarwal (Dharam Pal) HUF	30-Jun-18	2.7	1.0	0.0
7	Arcee Holding, Ltd.	30-Jun-18	2.7	1.0	0.0
8	Agarwal (Vineet)	30-Jun-18	2.6	1.0	0.0
9	Agarwal (Priyanka)	30-Jun-18	2.5	1.0	0.0
10	IDFC Asset Management Company Private Limited	30-Jun-18	2.5	0.9	-0.3

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18
Promoter	66.1	66.1	66.1	67.0
FII	2.3	10.2	3.4	3.7
DII	8.9	3.2	6.2	5.2
Others	22.7	20.5	24.4	24.1

Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Agarwal (Vihaan)	1.4	0.2	IDFC Asset Management Company Private Limited	-2.3	-0.3
Agarwal (Nav)	1.3	0.2	Florida State Board of Administration	0.0	0.0
Sharma (Phool Chand)	0.5	0.1	Harris Associates L.P.	0.0	0.0
Canara Robeco Asset Management Company Ltd.	0.3	0.0	Lal (Mukti)	0.0	0.0

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Total operating Income	750.3	885.1	1,062.1	1,253.3	
Growth (%)	13.1	18.0	20.0	18.0	
Operating expenses	576.6	664.4	802.9	947.5	
Employee Cost	58.8	72.5	80.7	89.0	
Repairs & Maintenance	4.1	4.3	4.2	5.0	
Adminst & other Exp	48.9	53.2	57.4	67.7	
EBITDA	61.9	90.7	116.8	144.1	
Growth (%)	13.4	46.4	28.9	23.4	
Depreciation	4.3	5.2	6.9	9.2	
EBIT	57.6	85.4	109.9	135.0	
Interest	2.4	3.8	2.3	2.0	
Other Income	1.4	2.1	6.2	9.4	
PBT	56.5	83.8	113.8	142.4	
Growth (%)	29.9	48.2	35.9	25.1	
Tax	19.0	25.1	39.4	49.3	
Reported PAT	37.5	58.6	74.4	93.1	
Exceptional Items	-	-	-	-	
Adjusted PAT	37.5	58.6	74.4	93.1	
Growth (%)	31.7	56.3	27.0	25.1	
EPS	9.8	15.3	19.4	24.3	

Source: Company, ICICI Direct Research;

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Source of Funds					
Equity Capital	7.7	7.7	7.7	7.7	
Reserves & Surplus	153.1	199.2	273.4	366.5	
Shareholder's Fund	160.8	206.8	281.0	374.1	
Secured Loan	0.5	0.5	0.5	0.5	
Unsecured Loan	31.1	46.4	46.4	38.9	
Total Loan Funds	31.0	39.8	46.9	39.4	
Deferred Tax Liability	-	-	-	-	
Minority Interest	3.4	4.3	4.4	4.5	
Source of Funds	195.2	250.9	332.3	418.0	
Application of Funds					
Gross Block	113.5	183.6	215.5	258.9	
Less: Acc. Depreciation	18.0	23.4	30.3	39.4	
Net Block	95.5	160.3	185.2	219.4	
Capital WIP	7.9	0.0	0.0	0.1	
Total Fixed Assets	103.4	160.3	185.3	219.5	
Intangibles	1.6	1.8	2.7	2.7	
Investments	-	-	-	-	
Debtors	113.1	154.4	160.0	188.8	
Cash	8.8	12.2	55.2	90.7	
Loan & Advance, Other CA	17.5	15.3	16.4	18.0	
Total Current assets	139.4	181.8	231.6	297.5	
Creditors	37.2	64.6	55.0	64.9	
Other Current Liabilities	9.6	25.1	28.8	33.1	
Provisions	2.4	3.3	3.4	3.6	
Total CL and Provisions	49.3	92.9	87.2	101.6	
Net Working Capital	90.2	88.9	144.4	195.9	
Miscellaneous expense	-	-	-	-	
Application of Funds	195.2	251.0	332.3	418.0	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Profit after Tax	37.5	58.6	74.4	93.1	
Less: Dividend Paid	(2.4)	(3.8)	(2.3)	(2.0)	
Add: Depreciation	4.3	5.2	6.9	9.2	
Add: Others	-	-	-	-	
Cash Profit	44.2	67.6	83.7	104.2	
Increase/(Decrease) in CL	16.4	43.7	(5.7)	14.4	
(Increase)/Decrease in CA	(15.9)	(42.1)	(6.4)	(30.0)	
CF from Operating Activities	44.8	72.2	71.2	88.2	
(Add) / Dec in Fixed Assets	(36.9)	(62.1)	(31.9)	(43.4)	
Goodwill	0.5	(0.2)	(0.9)	-	
(Inc)/Dec in Investments	-	-	-	-	
CF from Investing Activities	(36.5)	(62.3)	(32.8)	(43.4)	
Inc/(Dec) in Loan Funds	(9.8)	8.8	7.1	(7.5)	
Inc/(Dec) in Sh. Cap. & Res.	0.3	(12.6)	(0.2)	-	
Others	(1.4)	(2.8)	(2.3)	(1.9)	
CF from financing activities	(10.9)	(6.6)	4.5	(9.4)	
Change in cash Eq.	(2.6)	3.4	43.0	35.5	
Op. Cash and cash Eq.	11.4	8.8	12.2	55.2	
Cl. Cash and cash Eq.	8.8	12.2	55.2	90.7	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Per share data (₹)					
Book Value	42.0	54.0	73.4	97.7	
EPS	9.8	15.3	19.4	24.3	
Cash EPS	10.9	16.7	21.2	26.7	
DPS	0.8	0.8	0.8	0.8	
Profitability & Operating Ratios					
EBITDA Margin (%)	8.3	10.2	11.0	11.5	
PAT Margin (%)	5.0	6.6	7.0	7.4	
Fixed Asset Turnover (x)	3.9	3.6	3.2	3.0	
Debtor (Days)	53.1	55.2	55.0	55.0	
Current Liabilities (Days)	19.1	28.0	25.0	25.0	
Return Ratios (%)					
RoE	26.4	31.9	30.5	28.4	
RoCE	31.9	38.3	37.7	36.0	
RoIC	19.6	23.8	22.7	22.5	
Valuation Ratios (x)					
P/E	65.9	42.1	33.2	26.5	
Price to Book Value	15.4	11.9	8.8	6.6	
EV/EBITDA	40.3	27.6	21.1	16.8	
EV/Sales	3.3	2.8	2.3	1.9	
Leverage & Solvency Ratios					
Debt to equity (x)	0.2	0.2	0.2	0.1	
Interest Coverage (x)	23.6	22.7	46.9	68.5	
Debt to EBITDA (x)	0.5	0.4	0.4	0.3	
Current Ratio	2.7	1.8	2.0	2.0	
Quick ratio	2.7	1.8	2.0	2.0	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			
	(₹)	TP(₹)	Rating		FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Container Corporation	648	780	BUY	31,574	21.9	21.8	24.4	29.7	29.7	29.8	26.7	21.9	8.8	7.2	6.3	4.9	9.8	11.4	11.9	13.1
Transport Corp. of India	301	350	BUY	2,302	10.7	16.1	20.4	26.3	26.1	17.4	13.7	10.6	14.8	11.4	9.3	7.8	10.7	13.4	14.4	16.1
BlueDart	3,596	3,850	Hold	8,534	58.9	60.9	68.5	83.7	62.4	60.3	53.6	43.9	25.7	24.6	22.1	19.0	32.2	29.3	30.4	33.6
Gati Ltd.	111	120	BUY	1,204	1.1	3.2	3.3	4.7	92.7	30.7	29.2	20.5	13.5	19.0	11.8	8.9	8.2	6.5	10.4	13.1
Gujarat Pipavav	113	135	Hold	5,475	5.1	4.1	6.3	6.8	25.1	31.2	20.2	19.0	13.9	15.4	11.1	9.6	14.0	12.1	15.0	16.0
TCI Express	645	780	BUY	2,471	9.8	15.3	19.4	24.3	65.9	42.1	33.2	26.5	40.3	27.6	21.1	16.8	31.9	38.3	37.7	36.0

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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