



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old	↔	New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

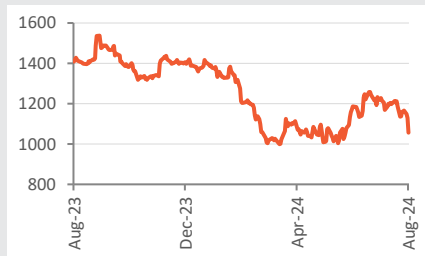
Company details

Market cap:	Rs. 4,049 cr
52-week high/low:	Rs. 1,550 / 998
NSE volume: (No of shares)	0.9 lakh
BSE code:	540212
NSE code:	TCIEXP
Free float: (No of shares)	1.2 cr

Shareholding (%)

Promoters	69.6
FII	1.6
DII	10.2
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-14.0	4.5	-12.3	-25.0
Relative to Sensex	-12.0	-3.7	-22.5	-46.0

Sharekhan Research, Bloomberg

TCI Express Ltd

Weak Q1; Focus on reverting to growth

Logistics	Sharekhan code: TCIEXP		
Reco/View: Buy	↔	CMP: Rs. 1,056	Price Target: Rs. 1,350
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on TCI Express with a revised PT of Rs. 1,350, factoring in a downward revision of estimates and expecting a revival in growth from H2FY2025.
- Q1FY2025 revenues lagged estimates, led by continued dip in volumes y-o-y. Negative operating leverage and lower truck utilisation led to a higher miss on OPM and net earnings.
- The company would be eyeing double-digit revenue growth for FY2025 as H2FY2025 is expected to see healthy growth partly aided by a low base. It expects OPMs to revert to over 14% in the near term.
- Capex plan of Rs. 500 crore over FY2023-FY2027 remains on track, with the balance capex of Rs. 329 crore to be incurred during FY2025-FY2027.

TCI Express reported lower standalone revenue at Rs. 293 crore, down 3.9% y-o-y, owing to a 2% y-o-y decline in overall tonnage volumes to 2.35 lakh tonnes and a 1% decline in truck utilisation to 82%. Election period, weather conditions, challenges faced by SME customers hit revenues. Further, standalone OPM at 11.4% (down 377 bps y-o-y) surprised negatively (our estimate of 14.2%) owing to decline in overall volumes and utilisation rates (1% dip leads to 150 bps contraction in OPMs). Hence, standalone operating profit/net profit declined by 28% y-o-y/29% y-o-y to Rs. 33.5 crore/Rs. 23.1 crore (over 20% lower than estimate). The management would eye for double-digit revenue growth for FY2025 as July witness single-digit volume growth and H2FY2025 expected to see healthy growth partly aided by low base. It expects OPMs to revert to over 14% in the near term with increase in utilization rates. It is strengthening its multi-modal capabilities by setting up a separate network for rail and air which would entail faster delivery. It would be automating Kolkata and Ahmedabad sorting centers over one and half years. Its planned capex of Rs. 500 crore over FY2023-FY2027 remains on track with the balance capex of Rs. 329 crore to be incurred during FY2025-FY2027.

Key positives

- Railways segment reported 30% y-o-y growth and is now contributing 2-2.5% of topline.
- It generated cash flow from operations and free cash flows of Rs. 11 crore and Rs. 4 crore, respectively.

Key negatives

- Tonnage volumes reported a 2% y-o-y decline, while truck utilisation dropped by 1% q-o-q to 82%.
- Net working capital days increased from 16 days in Q4FY2024 to 20 days in Q1FY2025

Management Commentary

- The company expects to grow in double digit in FY2025 and 12-15% y-o-y in FY2026. From Q2FY2025, it expects 14% plus OPM. July began with single-digit growth y-o-y. It expects healthy volume growth in H2FY2025 owing to low base.
- The company expects stabilisation in the coming quarters. It is strengthening its multi-modal logistics, which is expected to contribute 20-22% over 2-3 years. It is creating a separate network of rail and air for faster delivery.
- It has launched money-back guarantee scheme in mid-Q1FY2025, which would provide full refund of basis freight charges if delivery is beyond guaranteed time.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2026, factoring in lower volumes and OPM.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,350: TCI has been affected by a sluggish macro environment, although it has performed well vis-à-vis industry peers. The company remains on track to achieve profitable growth, although some volume gets sacrificed in the near term. We introduce our FY2027E earnings in this note. The continuous expansion by setting up new sorting centers and automation of existing centers, addition of branches, and scale up of new businesses would provide a 24% net earnings CAGR over FY2024-FY2027E. Further, TCI has a strong balance sheet, healthy cash flow-generation capacity, and high return ratios. We retain our BUY rating on the stock with a revised price target (PT) of Rs. 1,350, factoring in the downward revision in estimates and expecting a growth revival from H2FY2025.

Key Risks

A sustained weak macroeconomic environment can lead to a downward revision in net earnings.

Valuation

Particulars	Rs cr			
	FY24	FY25E	FY26E	FY27E
Revenue	1,253.8	1,355.0	1,548.0	1,780.1
OPM (%)	14.9	13.7	15.1	16.5
Adjusted PAT	131.7	128.0	161.1	203.9
YoY growth (%)	(5.4)	(2.8)	25.9	26.5
Adjusted EPS (Rs.)	34.4	33.4	42.0	53.2
P/E (x)	30.7	31.6	25.1	19.9
P/B (x)	5.7	5.0	4.4	3.7
EV/EBITDA (x)	21.1	21.3	16.9	13.4
RoNW (%)	20.3	17.1	18.8	20.3
RoCE (%)	20.0	16.3	18.1	19.8

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- ◆ **Guidance:** The company expects to grow in double digits in FY2025 and 12-15% y-o-y in FY2026. From Q2FY2025, it expects a 14% plus OPM. July month started with single digit growth y-o-y. It expects healthy volume growth in H2FY2025 owing to low base.
- ◆ **Q1FY25 highlights:** Q1FY2025 was impacted by market fluctuations, increased costs, higher interest costs, high labour costs, inflation and weather conditions. Additionally, general elections and challenges faced by SMEs impacted Q1. Truck capacity utilisation dropped to 82% from 83% in Q4FY2024 and 84% in FY2024. Volumes declined by 2% y-o-y to 2.35 lakh tonnes. A 1% drop in utilisation impacts OPMs by 150 bps. A rise in airline prices and airport charges impacted by 100 bps. Cash flow from operations and free cash flows stood healthy at Rs. 11 crore and Rs. 4 crore respectively. Net working capital days increased from 16 days to 20 days q-o-q.
- ◆ **Outlook:** The company expects stabilisation in the coming quarters. It is strengthening its multi-modal logistics, which is expected to contribute 20-22% over 2-3 years. It is creating a separate network of rail and air for faster delivery. However, the focus remains on the Express business.
- ◆ **User industry outlook:** Textile and Engineering sectors are seeing less growth while Automobile and pharma sectors are seeing growth. It is focusing on Solar and Home furnishing sectors.
- ◆ **Region-wise growth:** West grew by 1-1.5% y-o-y, North stayed flattish while South saw a decline of 5% y-o-y. North, West and South regions equally contribute towards an 85% mix.
- ◆ **Money back scheme:** It has launched money back guarantee scheme in mid-Q1FY2025, which would provide full refund of basis freight charges if delivery is beyond guaranteed time.
- ◆ **Price hike:** It does not expect much price hike. It can get maximum 0.5-1% price hike in FY2025.
- ◆ **Sorting centers:** Automation at its 1.4 lakh sq. ft. Pune sorting center has boosted its operations in Western India. It would undertake automation at its Calcutta and Ahmedabad sorting centers over one and half year. Gurgaon and Pune sorting centres comprise 25% of the in and out volumes for the company.
- ◆ **Rail logistics:** Rail segment grew by 30% y-o-y in Q1FY2025. Rail comprise 2-2.5% of the topline. It has now over 5000 customer base. It opened several new branches. The delivery schedule ranges 24, 48, 72, 96 hours.
- ◆ **Air:** Air (domestic plus international) comprised 7-7.5% of revenues similar to last year.
- ◆ **Capex:** It incurred capex of Rs. 7.5 crores in Q1FY2025. It plans capex of Rs. 329 crore over FY2025-FY2027.
- ◆ **Branch additions:** It added five new branches in Q1FY2025. It plans to add 50-60 branches in North and West in FY2025.

Results

Particulars	Rs cr				
	Q1FY2025	Q1FY2024	Y-o-Y (%)	Q4FY2024	Q-o-Q (%)
Net sales	293.0	304.9	-3.9	317.1	-7.6
Other income	2.3	1.5	54.1	1.9	18.1
Total income	295.3	306.4	-3.6	319.0	-7.5
Total expenses	259.4	258.5	0.4	272.3	-4.7
Operating profit	33.5	46.4	-27.7	44.8	-25.2
Depreciation	5.1	4.6	10.4	4.9	4.5
Interest	0.3	0.4	-30.8	0.4	-32.5
Profit Before Tax	30.5	42.9	-28.9	41.5	-26.6
Taxes	7.4	10.5	-30.3	9.9	-25.9
PAT	23.1	32.3	-28.5	31.6	-26.8
Adjusted PAT	23.1	32.3	-28.5	31.6	-26.8
EPS (Rs.)	6.0	8.4	-28.5	8.2	-26.8
			bps		bps
OPM (%)	11.4%	15.2%	-377	14.1%	-269
NPM (%)	7.9%	10.6%	-271	10.0%	-207
Tax rate (%)	24.1%	24.6%	-46	23.9%	22

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook led by changing consumer preferences and macro pick-up

The logistics industry is one of the key sectors, which has shown a strong revival post-COVID-19 pandemic, which affected the overall trade environment, both domestically and globally. Domestic indicators such as e-way bill generation, FASTag collections, Indian rail volumes, domestic port volumes, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve business, led by user industries' preference towards credible supply chain management in the wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen faster improvement in operations, led by segments such as e-commerce, pharmaceuticals, and FMCG. Hence, we have a Positive view on the sector.

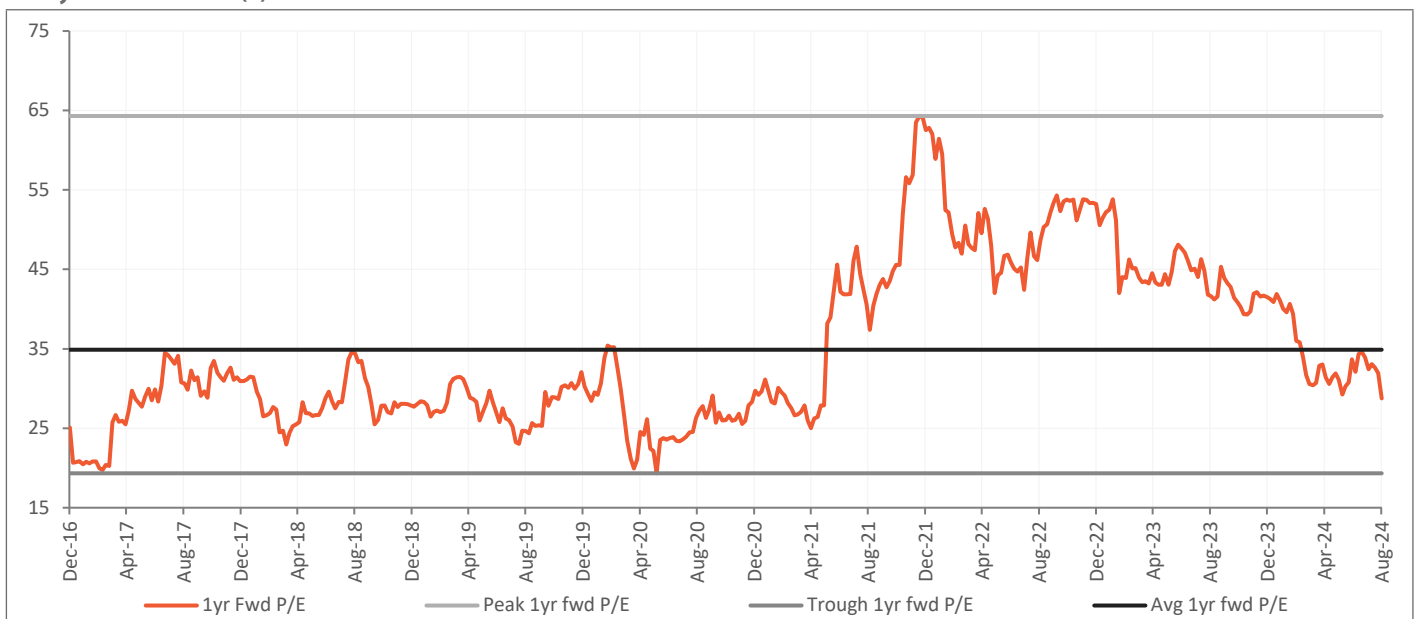
■ Company Outlook – Profitable long-term growth outlook

Management is optimistic about the long-term growth outlook, expecting strong demand from the SME segment (which comprises almost 50% of revenue). The company expects to achieve 10-12% y-o-y volume growth and 1.5-2% pricing growth during FY2025. On the OPM front, it expects to continue aiming for a 50-75 bps y-o-y improvement each year to be driven by higher capacity utilisation and cost efficiencies. TCI has also launched three new value-added services called Cold Chain Express (catering to pharma and frozen food packaging companies), C2C Express (first-to-launch customer-to-customer service with multi-location pick-up and delivery), and Rail Express (to cater to the B2B air cargo business). The company remains optimistic about growth and expects to gain market share.

■ Valuation – Retain Buy with a revised PT of Rs. 1,350

TCI has been affected by a sluggish macro environment, although it has performed well vis-à-vis industry peers. The company remains on track to achieve profitable growth, although some volume gets sacrificed in the near term. We introduce our FY2027E earnings in this note. The continuous expansion by setting up new sorting centers and automation of existing centers, addition of branches, and scale up of new businesses would provide a 24% net earnings CAGR over FY2024-FY2027E. Further, TCI has a strong balance sheet, healthy cash flow-generation capacity, and high return ratios. We retain our BUY rating on the stock with a revised price target (PT) of Rs. 1,350, factoring in the downward revision in estimates and expecting a growth revival from H2FY2025.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

TCI is a leading time-definite express distributor, with a network of 700 offices covering more than 40,000 locations. The company commenced operations in 1997 and has over two decades of industry experience. The company demerged from Transport Corporation of India in 2016 and was listed on December 15, 2016. The company offers services comprising surface, domestic and international air, e-commerce, priority, and reverse express services. TCI has over 3,000 plus a workforce with 28 sorting centres. The company caters to consumer electronics, retail, apparel and lifestyle, automobile, pharmaceuticals, engineering, e-commerce, energy/power, and telecommunications.

Investment theme

TCI has over two decades of experience in the logistics business, catering to surface transport that fetches 86% of revenue. The logistics industry is estimated to be worth Rs. 30,000 crore (~12% of India's GDP) and is majorly serviced by the road network (~60% share). The road express industry is expected to grow at 12-15%, twice GDP growth, during the next five years. TCI has a 5% value market share in the organised segment and is expected to be the biggest beneficiary in the industry, where the unorganised segment holds over 90% share.

Key Risks

- ◆ Weak macroeconomic environment, especially the manufacturing sector.
- ◆ Slowdown in SMEs as half of TCI's business comes from SMEs.
- ◆ Inability to increase market share from unorganised players in the post-GST era.

Additional Data

Key management personnel

D.P. Agarwal	Chairman and Director
Chander Agarwal	Managing Director
Pabitra Panda	CEO
Mukti Lal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BHORUKA EXPRESS	44.47
2	TCI TRADING	6.48
3	Canara Robeco Asset Management Co	4.50
4	Chamaria Sushma	2.65
5	Agarwal Vineet	2.59
6	Agarwal Priyanka	2.54
7	Agarwal Urmila	2.41
8	Agarwal Chander	2.39
9	Sundaram Asset Management Co Ltd	1.54
10	HDFC Asset Management Co Ltd	1.16

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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