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**TCIEXPRESS**  
LEADER IN EXPRESS

#### Stock Info

Bloomberg	TCIEXP IN
Equity Shares (m)	38
M.Cap.(INRb)/(USD\$)	63 / 0.8
52-Week Range (INR)	2010 / 1384
1, 6, 12 Rel. Per (%)	9/-12/-15
12M Avg Val (INR M)	49
Free float (%)	30.3

#### Financials Snapshot (INR b)

Y/E March	2023	2024E	2025E
Net Sales	12.4	14.2	15.9
EBITDA	1.9	2.3	2.8
Adj. PAT	1.4	1.7	2.0
EBITDA Margin (%)	15.7	16.5	17.8
Adj. EPS (INR)	36.4	43.6	52.9
EPS Gr. (%)	8.1	20.0	21.3
BV/Sh. (INR)	156	191	236

#### Ratios

Net D/E (x)	0.0	0.0	0.0
RoE (%)	24.6	25.1	24.7
RoCE (%)	24.4	24.9	24.6
Payout (%)	22.0	18.3	15.1

#### Valuations

P/E (x)	45.2	37.7	31.1
P/BV (x)	10.6	8.6	7.0
EV/EBITDA (x)	32.3	26.7	22.0
Div. Yield (%)	0.5	0.5	0.5
FCF Yield (%)	0.7	0.7	0.7

# TCI Express

**CMP: INR1,643**

**TP: INR1,850 (+13%)**

**Buy**

## Focus on profitable growth in B2B; healthy ramp-up in new segments

We recently hosted TCI Express (TCIE) for a non-deal roadshow. Here are the key highlights:

- TCIE has established itself as a leading logistics player with a pan-India reach, which gives the company an advantage against competition. The company focuses on the profitable B2B segment, which accounts for ~95% of its business. It also has a good blend of customers, with 50% of its revenue coming from SMEs and the balance from Corporates. Over the years, TCIE has developed a robust Hub-and-Spoke infrastructure, comprising over 950 owned centers across 60,000 locations in the country.
- While new segments, Rail Express and C2C Express, are small parts of its overall business but are growing at a fast pace. TCIE expects these high-margin segments to form nearly 25% of its overall business in FY25 from ~18% currently. After commissioning an automated center in Gurugram in FY22, TCIE is looking to automate the Pune facility in FY24. It would improve the turnaround time and reduce costs.
- During FY23, TCIE incurred capex of INR1.25b, primarily for the purchase of land in Kolkata and Ahmedabad to set up new automated sorting center, a new corporate office in Gurgaon, and the network expansion by adding 35 new branches in key growing markets in the West and South regions.
- We expect TCIE to achieve volume/revenue/EBITDA/PAT CAGR of 11%/13%/21%/21% over FY23-25, aided by automation and the transition from rental sorting centers to an owned model, resulting in better operating efficiency. TCIE plans to incur capex of INR5b over next five years for setting up its own sorting centers. It intends to have its own sorting centers in 11 cities by FY26. With targeted capex, a debt-free balance sheet and a focus on the highly profitable B2B segment, the outlook for TCIE looks bright. We reiterate our BUY rating with a TP of INR1,850, based on 35x FY25E EPS.

## Focus on high-margin B2B space; would not venture into B2C in big way

- TCIE is generating the majority of its business from the B2B segment where customers are more sticky and driven by long-term relationships. On the other hand, customers in the B2C segment are more price-sensitive, and hence the margin profile of B2B is far superior to that of B2C.
- TCIE, therefore, focuses on the B2B segment and would only take up high-margin volume opportunities in the B2C segment.

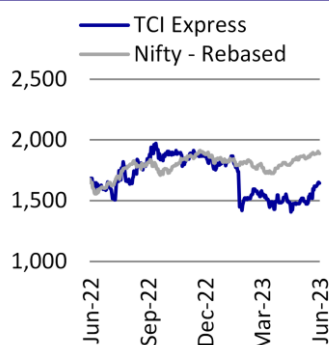
## New value-added services to augment growth

- In the past two years, TCIE introduced Rail Express, Pharma Cold Chain, and C2C Express services as part of its efforts to enhance its value proposition while adhering to an asset-light model. These services have received significant attention and have contributed to the expansion of TCIE's customer base.
- Among newly launched services, Rail Express is getting good traction, and the company has successfully expanded its customer base from 250 to 2,200 and presence from 10 routes to 125 routes since inception. These high-margin offerings are expected to contribute materially in the next few years.

**Shareholding pattern (%)**

As On	Mar-23	Dec-22	Mar-22
Promoter	69.7	66.9	66.7
DII	10.2	10.4	8.1
FII	2.0	1.7	2.0
Others	18.1	21.0	23.2

FII Includes depository receipts

**Stock Performance (1-year)****Aggressive branch expansion to enhance market presence**

- In order to accelerate its business growth, TCIE has successfully opened 450 new branches in the last five years. In FY24, TCIE plans to add 50-75 branches, capitalizing on the upcoming manufacturing facilities and clusters of SMEs.
- With the expansion, TCIE seeks to grow its footprint in emerging markets in order to meet increasing demands of SME customers more effectively. This strategic move enables TCIE to offer customized logistics solutions to unique requirements of SMEs.

**Asset-light model helps to minimize idle capacity during downturns**

- TCIE does not have any fleet on its books. In the absence of any owned fleet, the business relies on ~5,500 containerized vehicles from attached business vendors and associates to meet its customer requirements.
- By relying on an asset-light model, TCIE can adjust its operations and adapt to changing market conditions. This flexibility enables the company to maintain healthy profitability margins even in challenging times.

**Targets INR20b revenues in next few years**

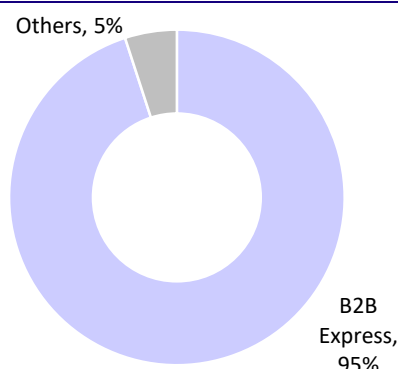
- TCIE aims to expand its customer base by doubling its branch network, ramping up new value-added services (Cold Chain Express, C2C express, Rail Express and Air express) to 25% of revenues (~18% contribution in FY23), and by building own sorting centers in major metro cities of India. Accordingly, it expects to achieve INR 20b in revenue in the next few years.
- TCIE's large sorting centers in Chennai, Nagpur, Kolkata and Mumbai are expected to streamline hub-to-hub movement and automation, resulting in enhanced operating efficiency.

**Valuation and view**

- TCIE's strategic emphasis on the high-margin B2B Express segment serves as a robust platform for both profitability and growth. The expansion of its branch network in key markets, with a focus on the SME segment, presents TCIE with an opportunity to gain market share. Additionally, the introduction of new automated sorting centers should enhance TCIE's operational efficiency and reduce the turnaround time, thereby bolstering its competitiveness.
- We expect TCIE to clock an 11% volume CAGR and revenue/EBITDA/PAT CAGRs of ~13%/21%/21% over FY23-25. **Reiterate BUY with a TP of INR1,850 (based on 35x FY25E EPS).**
- Key downside risks: 1) Any major slowdown in express logistics business and 2) Any significant market share loss due to aggressive competition.

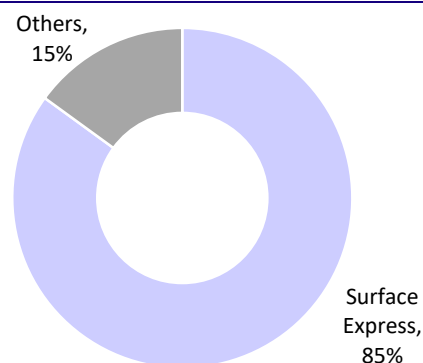
## Story in charts

**Exhibit 1: B2B accounts for 95% of its business (as of Mar'23)**



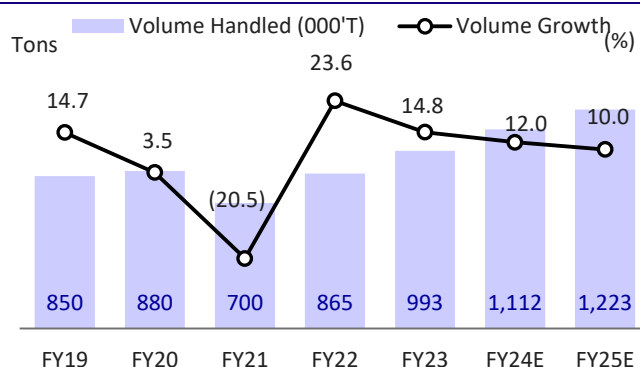
Source: Company, MOFSL

**Exhibit 2: Driven by high growth in the Surface segment (FY23)**



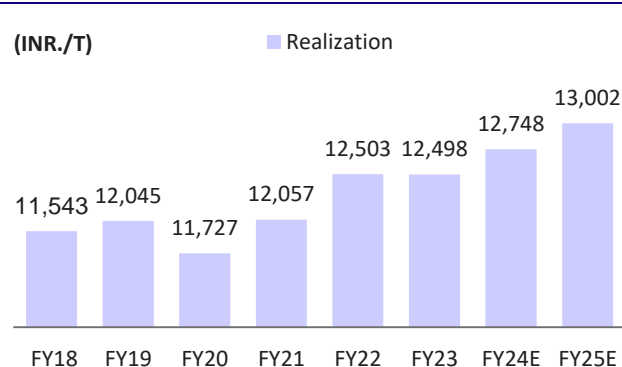
Note: Others include Air, Rail, and e-commerce Source: Company, MOFSL

**Exhibit 3: Volumes to register CAGR of 11% over FY23-25**



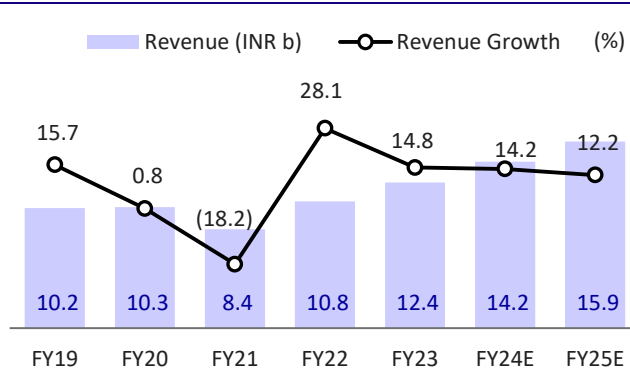
Source: Company, MOFSL

**Exhibit 4: Realization to pick up with price hikes**



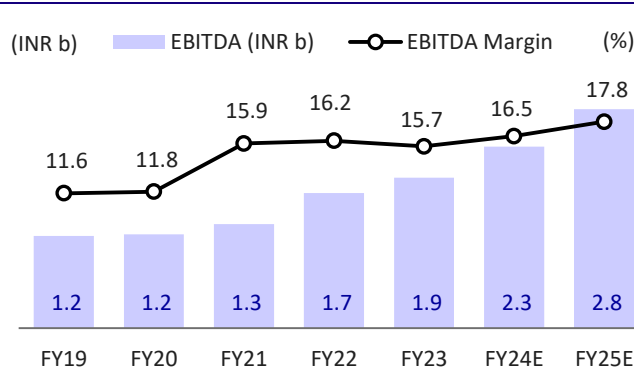
Source: Company, MOFSL

**Exhibit 5: Revenue growth led primarily by tonnage growth**

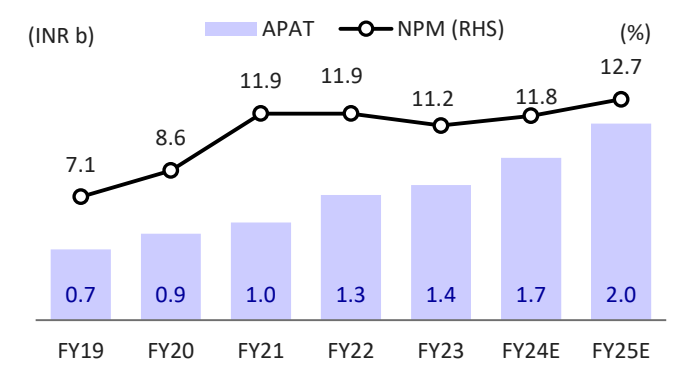


Source: Company, MOFSL

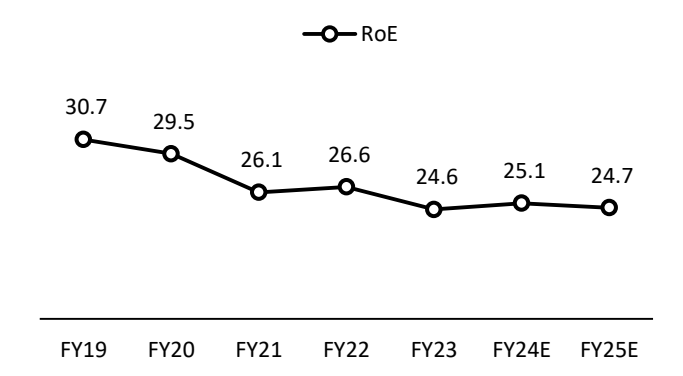
**Exhibit 6: EBITDA expected to improve with increasing hub efficiencies and lower rental costs**



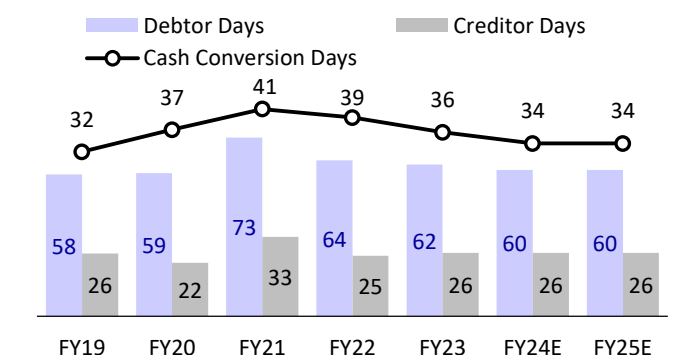
Source: Company, MOFSL

**Exhibit 7: Improvement in operational efficiency to drive profitability**

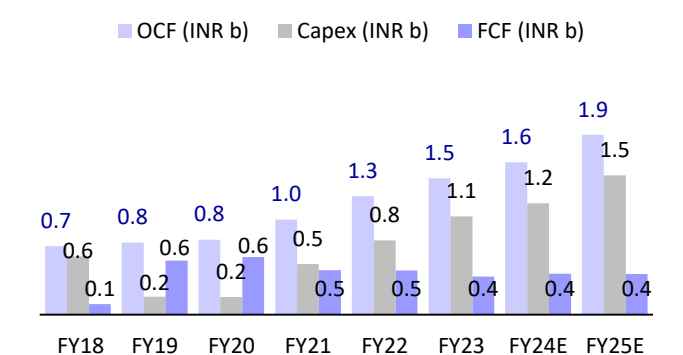
Source: Company, MOFSL

**Exhibit 8: RoE to hover around 25% though FY24-25**

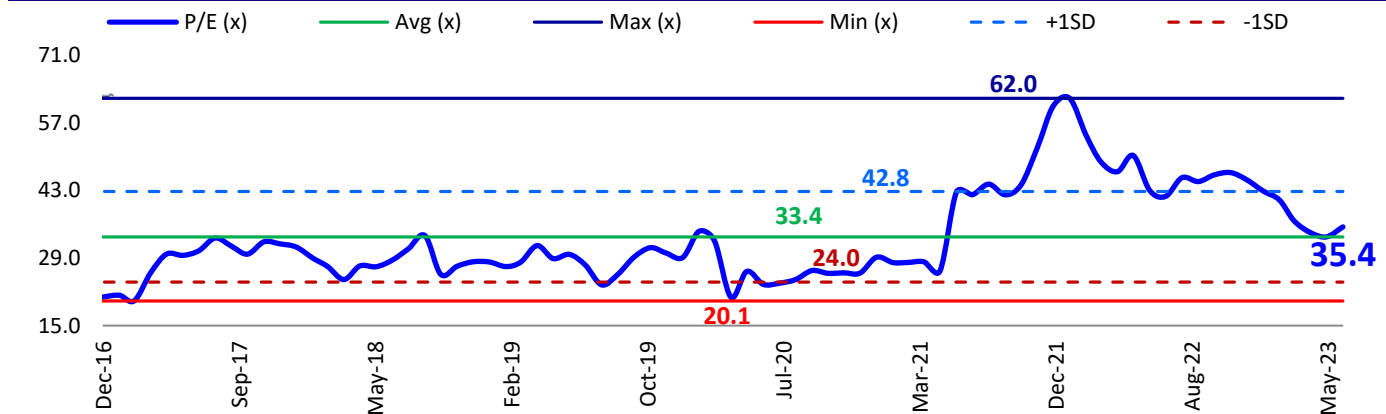
Source: Company, MOFSL

**Exhibit 9: Comfortable working capital position**

Source: Company, MOFSL

**Exhibit 10: Cash generation to remain healthy**

Source: Company, MOFSL

**Exhibit 11: One-year forward P/E (x)**

Source: Company, MOFSL

## Financials and valuations

### Income Statement

Y/E March (INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>10,238</b>	<b>10,320</b>	<b>8,440</b>	<b>10,815</b>	<b>12,410</b>	<b>14,177</b>	<b>15,907</b>
Change (%)	15.7	0.8	-18.2	28.1	14.8	14.2	12.2
Gross Margin (%)	26.4	28.9	32.9	32.2	31.5	32.4	32.6
<b>EBITDA</b>	<b>1,190</b>	<b>1,213</b>	<b>1,343</b>	<b>1,747</b>	<b>1,945</b>	<b>2,346</b>	<b>2,831</b>
Margin (%)	11.6	11.8	15.9	16.2	15.7	16.5	17.8
Depreciation	65	78	90	100	153	171	187
<b>EBIT</b>	<b>1,125</b>	<b>1,135</b>	<b>1,254</b>	<b>1,648</b>	<b>1,792</b>	<b>2,175</b>	<b>2,643</b>
Int. and Finance Charges	38	9	8	9	18	18	18
Other Income	32	44	77	82	72	77	84
<b>PBT</b>	<b>1,119</b>	<b>1,170</b>	<b>1,322</b>	<b>1,720</b>	<b>1,845</b>	<b>2,234</b>	<b>2,709</b>
Tax	390	279	316	432	453	563	683
Effective Tax Rate (%)	34.9	23.9	23.9	25.1	24.5	25.2	25.2
<b>Reported PAT</b>	<b>728</b>	<b>891</b>	<b>1,006</b>	<b>1,289</b>	<b>1,393</b>	<b>1,671</b>	<b>2,026</b>
Change (%)	24.7	22.3	12.9	28.1	8.1	20.0	21.3
Margin (%)	7.1	8.6	11.9	11.9	11.2	11.8	12.7

### Balance Sheet

Y/E March (INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	77	77	77	77	77	77	77
Total Reserves	2,595	3,296	4,262	5,285	5,887	7,252	8,971
<b>Net Worth</b>	<b>2,672</b>	<b>3,373</b>	<b>4,339</b>	<b>5,362</b>	<b>5,964</b>	<b>7,328</b>	<b>9,048</b>
Deferred Tax Liabilities	55	41	54	79	105	105	105
Total Loans	98	40	21	11	46	51	57
<b>Capital Employed</b>	<b>2,825</b>	<b>3,454</b>	<b>4,413</b>	<b>5,452</b>	<b>6,114</b>	<b>7,484</b>	<b>9,209</b>
Gross Block	1,961	2,126	2,629	3,628	4,323	5,523	7,023
Less: Accum. Deprn.	230	272	345	430	583	754	941
<b>Net Fixed Assets</b>	<b>1,731</b>	<b>1,854</b>	<b>2,284</b>	<b>3,198</b>	<b>3,741</b>	<b>4,769</b>	<b>6,082</b>
Capital WIP	14	230	278	61	611	611	611
<b>Total Investments</b>	<b>13</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>2,033</b>	<b>2,222</b>	<b>2,894</b>	<b>3,301</b>	<b>2,987</b>	<b>3,504</b>	<b>4,089</b>
Inventory	0	0	0	0	0	0	0
Account Receivables	1,631	1,658	1,695	1,895	2,115	2,331	2,615
Cash and Bank Balances	171	126	272	180	164	364	566
Loans and Advances	85	92	108	95	99	113	127
Others	145	346	819	1,130	610	696	781
<b>Current Liab. and Prov.</b>	<b>964</b>	<b>861</b>	<b>1,052</b>	<b>1,119</b>	<b>1,235</b>	<b>1,411</b>	<b>1,583</b>
Account Payables	724	620	752	737	884	1,010	1,133
Other Current Liabilities	200	195	257	326	300	342	384
Provisions	41	47	43	56	51	58	66
<b>Net Current Assets</b>	<b>1,069</b>	<b>1,360</b>	<b>1,842</b>	<b>2,182</b>	<b>1,752</b>	<b>2,093</b>	<b>2,506</b>
<b>Application of Funds</b>	<b>2,825</b>	<b>3,454</b>	<b>4,413</b>	<b>5,452</b>	<b>6,114</b>	<b>7,485</b>	<b>9,210</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>							
EPS	19.0	23.3	26.3	33.6	36.4	43.6	52.9
EPS growth (%)	24.7	22.3	12.9	28.1	8.1	20.0	21.3
Cash EPS	20.7	25.3	28.6	36.2	40.4	48.1	57.8
BV/Share	69.8	88.0	113.3	140.0	155.7	191.3	236.2
DPS	3.0	4.0	4.0	8.0	8.0	8.0	8.0
Payout (incl. Div. Tax, %)	18.4	23.9	15.3	23.8	22.0	18.3	15.1
<b>Valuation (x)</b>							
P/E	86.4	70.7	62.6	48.8	45.2	37.7	31.1
Cash P/E	79.3	65.0	57.4	45.3	40.7	34.2	28.4
EV/EBITDA	52.8	51.8	46.7	35.9	32.3	26.7	22.0
EV/Sales	6.1	6.1	7.4	5.8	5.1	4.4	3.9
P/BV	23.6	18.7	14.5	11.7	10.6	8.6	7.0
Dividend Yield (%)	0.2	0.2	0.2	0.5	0.5	0.5	0.5
<b>Return Ratios (%)</b>							
RoE	30.7	29.5	26.1	26.6	24.6	25.1	24.7
RoCE	28.2	28.6	25.7	26.3	24.4	24.9	24.6
RoIC	29.2	30.2	27.5	27.3	25.7	27.5	27.2
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	5.4	5.1	3.5	3.5	3.1	2.9	2.5
Asset Turnover (x)	3.6	3.0	1.9	2.0	2.0	1.9	1.7
Inventory (Days)	0	0	0	0	0	0	0
Debtors (Days)	58	59	73	64	62	60	60
Creditors (Days)	26	22	33	25	26	26	26
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	0.0	0.0	-0.1	0.0	0.0	0.0	0.0

### Consolidated – Cash Flow Statement

Y/E March (INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	1,119	1,170	1,322	1,720	1,845	2,234	2,709
Depreciation	65	78	90	100	153	171	187
Direct Taxes Paid	-388	-317	-284	421	-430	-563	-683
(Inc.)/Dec. in WC	-50	-125	-75	-106	-107	-141	-211
Other Items	29	2	-30	-859	6	-59	-66
<b>CF from Operations</b>	<b>775</b>	<b>808</b>	<b>1,023</b>	<b>1,276</b>	<b>1,468</b>	<b>1,642</b>	<b>1,937</b>
(Inc.)/Dec. in FA	-193	-188	-545	-800	-1,058	-1,200	-1,500
<b>Free Cash Flow</b>	<b>582</b>	<b>620</b>	<b>478</b>	<b>475</b>	<b>410</b>	<b>442</b>	<b>437</b>
Change in Investments	-13	-283	-439	-147	-162	0	0
Others	-51	-124	24	44	567	77	84
<b>CF from Investments</b>	<b>-256</b>	<b>-595</b>	<b>-960</b>	<b>-903</b>	<b>-653</b>	<b>-1,123</b>	<b>-1,416</b>
Change in Equity	0	0	0	0	-405	0	0
Inc./(Dec.) in Debt	-299	-36	2	10	-3	0	0
Dividends Paid	-134	-213	-77	-308	-407	-306	-306
Others	-38	-9	-8	-9	-23	-13	-13
<b>CF from Fin. Activity</b>	<b>-470</b>	<b>-258</b>	<b>-83</b>	<b>-307</b>	<b>-837</b>	<b>-319</b>	<b>-319</b>
<b>Inc./(Dec.) in Cash</b>	<b>49</b>	<b>-45</b>	<b>-20</b>	<b>66</b>	<b>-23</b>	<b>200</b>	<b>201</b>
Opening Balance	122	171	111	92	158	164	364
<b>Closing Balance</b>	<b>171</b>	<b>126</b>	<b>92</b>	<b>158</b>	<b>135</b>	<b>364</b>	<b>566</b>

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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