BUY (Maintained)

CMP: **INR 1,124** Target Price: **INR 1,300 (INR 1,495)** ▲ 16%

ICICI Securities

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14 August 2024

India | Equity Research | Q1FY25 results review

TCI Express

Logistics

Low volumes result in subdued performance

TCI Express (TCIE) Q1FY25 EBITDA was significantly below our/consensus estimates, mainly on account of underutilised capacity, higher operating cost and unabsorbed fixed cost. Key points: 1) Volume declined 2.1% YoY on subdued demand. 2) EBITDA margin declined to 11.2% (14.1% in Q4FY24), lowest since Q1FY21. 3) Railway business grew ~30% YoY and contributed to 2-2.5% of revenue for Q1FY25. 4) Incurred capex of INR 75mn during Q1FY25 and plans to incur capex of INR 3.3bn for FY25-27. 5) Truck utilisation level dipped to 82% in Q1FY25 (84% in FY24). While management has maintained its volumes growth guidance, we believe it is difficult for TCIE to achieve this in the current demand scenario. Hence, we cut our FY25E/FY26E EPS by 15%/12%. We list TCIE as one of the top picks in the logistics space. Retain **BUY**; TP revised to INR 1,300 (from INR 1,495) based on 34x FY26E EPS.

EBITDA undershot estimates

TCIE's Q1FY25 performance was 27%/21% below our/consensus estimates. Key points: 1) EBITDA of INR 327mn (down 29.4% YoY) was mainly because of a decline in volumes YoY, lower realisation/te and low gross margin/te. 2) Truck utilisation was 82% in Q1FY25 (83% in Q4FY24). 3) EBITDA margin declined to 11.2%, lowest since Q1FY21, as lower utilisation led to high unabsorbed costs; and elevated operating cost. 4) Incurred capex of INR 75mn during Q1FY25; plans to incur capex of INR 3.3bn for FY25-27. 5) Added five new branches in Q1FY25 and plans to add 50-60 new branches in FY25. 6) Rail business grew 30% YoY, contributing ~2.5% of revenue, air business contributed 7-8% of revenue in Q1FY25. Management maintains its double-digit volumes growth guidance for FY25; however, we believe volume growth is likely to be in mid-single-digits in the current demand scenario.

Volume growth is the key to improve margins

The decline in EBITDA margins is mainly on account of: 1) decline in volumes; 2) increase in operating cost due to lower utilisation of trucks; and 3) increase in airline prices (unable to pass on to customers). Management mentioned a 100bps improvement in truck utilisation can improve EBITDA by 150bps. Further, in the earnings call, management guided for: 1) double-digit volumes growth for FY25; 12-15% growth for FY26; and 2) improvement in margins on the back of volume growth. We believe TCIE's sound balance sheet, returns in excess of 20% and cash conversion of 50%, may aid it in these turbulent times. Besides, management is focused on expanding its footprint in new services and efforts are underway to increase this to ~20% by FY25; is likely to be earning accretive.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	12,410	12,538	13,170	14,499
EBITDA	1,945	1,872	1,847	2,153
EBITDA Margin (%)	15.7	14.9	14.0	14.9
Net Profit	1,393	1,317	1,265	1,468
EPS (INR)	36.4	34.3	33.0	38.3
EPS % Chg YoY	8.6	(5.6)	(3.9)	16.0
P/E (x)	30.9	32.7	34.1	29.4
EV/EBITDA (x)	21.9	22.4	22.6	19.3
RoCE (%)	25.9	20.8	17.4	17.6
RoE (%)	26.7	21.5	18.1	18.2

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Market Data

Market Cap (INR)	43bn
Market Cap (USD)	514mn
Bloomberg Code	TCIEXP IN
Reuters Code	TCIE BO
52-week Range (INR)	1,555 /998
Free Float (%)	29.0
ADTV-3M (mn) (USD)	1.0

Price Performance (%)	3m	6m	12m
Absolute	11.3	(7.2)	(21.0)
Relative to Sensex	2.8	(17.5)	(41.9)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(6.0)	(6.8)
EBITDA	(13.9)	(11.4)
EPS	(14.7)	(12.1)

Previous Reports

12-05-2024: Q4FY24 results review
13-02-2024: Q3FY24 results review

Outlook: Expect performance improvement in H2FY25

The industry is going through tough times and TCIE has witnessed volumes decline consecutively for the past three quarters – we have not seen such a decline in the past, except for during the Covid-19 pandemic. This apart, competitive intensity in the logistics space has increased over the past few years with the emergence of new-age players. We believe TCIE is best-placed among peers in the times of lacklustre demand owing to its strong balance sheet, focus on other revenue streams and possibility of further cost efficiencies from the new automatic sorting centres. While management has maintained its volumes growth guidance (double-digit for FY25), we could stay cautious at this stage, hence we have reduced our EPS estimates for FY25E/FY26E by 15%/12%. We maintain **BUY** with a revised target price of INR1,300 (INR 1,495 earlier) based on 34x FY26E EPS.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	13,170	14,005	(6.0)	14,499	15,560	(6.8)
EBITDA	1,847	2,144	(13.9)	2,153	2,431	(11.4)
PAT	1,265	1,483	(14.7)	1,468	1,670	(12.1)

Source: I-Sec research

Key risks

Upside risks: 1) Increased tonnage with improvement in domestic manufacturing; and 2) retention of cost efficiencies obtained in FY21 as volume returns.

Downside risks: 1) Increased rail share leading to a shift in business model for express players like TCIE; 2) more omni-channel developments requiring higher technology investments, and 3) a business disruption favouring start-ups in the space.

Q1FY25 conference call takeaways

- Management has maintained double-digit volumes growth guidance for FY25; and expects it to be 12-15% in FY26.
- Rail business has grown 30% YoY and contributed ~2.5% of revenue, air business has contributed 7-8% of revenue Q1FY25.
- Q1FY25 was impacted by ongoing multi-modal enhancements as well as inflation, labour costs, and interest rates. These factors, combined with a temporary decline in volumes due to the general elections and adverse weather conditions, led to lower utilisation levels and a subsequent decline in margins.
- The decline in EBITDA margins is mainly on account of: 1) decline in volumes; 2) increase in operating cost due to lower utilisation of trucks; and 3) increase in airline prices (unable to pass on to customers). Volumes decline impact is ~200bps, lower utilisation of vehicle impacted 200-250bps and increased airline charges has impacted 100bps in margins.
- All three regions put together, except east, have 85% revenue share. West region has ~1-1.5% growth rate while north is flat. Volumes declined by 5% in the south region.
- The company is planning to add 50-60 new branches in FY25 with a mix of surface business and multi-modal business. More focus on north and west.

- ~150bps improvement in EBITDA margins could be seen if truck utilisation improves by 1%.
- The company expects margins to improve Q2 onwards (back to 14% level).
- The company has taken two steps: 1) appointed Ashok Pandey as new CEO for multi-modal and creating different network for multi-modal, separate from surface; and 2) separated sales team under the supervision of Mr. Pabitra Mohan Panda to focus more on sales.
- Jul'24 witnessed single-digit volumes growth.
- On the operational front, TCIE is strengthening its multi-modal business, with a goal to increase its contribution to 20-22% of total revenue over the next 2-3 years.
- The automation of its Pune sorting centre, covering 140,000 square feet with an AI-enabled automated cross-belt sorter, has significantly boosted efficiency in western India. This has led to benefit of 25bps to 50bps on an overall basis.
- TCIE is planning to extend this automation strategy to its upcoming sorting centres in Ahmedabad and Kolkata, over the next three years.
- In rail logistics sector, it has expanded to 5,000+ customer base.
- Capital expenditure of INR 75mn was incurred in Q1FY25, primarily spent on the development of sorting centres.
- Five new branches were added in Q1.
- The air express segment saw a rise in costs, primarily due to the consolidation of airlines, which led to reduced competition and higher freight rates. Additionally, other cost increases in this segment further pressured margins.
- Ongoing enhancements and expansions in multi-modal express business, particularly in tier-2/3 cities, resulted in increased operational costs. While these investments are strategic for long-term growth, they contributed to the short-term margin decline.
- Cash flow from operations was INR 110mn for Q1FY25.
- The working capital cycle has reduced from 39 to 35 days. And net working capital cycle is also ~20 days.
- TCIE has released its first ESG report.
- Money-back guarantee scheme was launched in mid-Q1FY25 to gain customers.
- The company will be focused on express business only.

Exhibit 2: TCI Express Q1FY25 performance review

(INR mn)	Q1FY25	Q1FY24	Chg. YoY (%)	Q4FY24	Chg. QoQ (%)	FY24	FY23	Chg. YoY (%)
Net income from operations	2,930	3,049	(3.9)	3,171	(7.6)	12,538	12,410	1.0
Total income from operations	**2,930**	**3,049**	(3.9)	**3,171**	(7.6)	**12,538**	**12,410**	1.0
Operating expenses	2,089	2,090	(0.1)	2,170	(3.8)	8,586	8,497	1.0
Gross Margin	841	958	(12.2)	1,001	(16.0)	3,953	3,913	1.0
Gross Margin (%)	*28.7*	*31.4*		*31.6*		*31.5*	*31.5*	
Employee wages	346	333	3.9	336	3.2	1,339	1,243	7.7
Other expenses	168	161	3.8	217	(22.8)	741	725	2.2
Total expenses	**2,603**	**2,585**	0.7	**2,723**	(4.4)	**10,666**	**10,465**	1.9
EBITDA	**327**	**464**	(29.4)	**448**	(27.0)	**1,872**	**1,945**	(3.7)
EBITDA Margin (%)	*11.2*	*15.2*		*14.1*		*14.9*	*15.7*	
Depreciation	51	46	10.4	49	4.5	190	153	23.8
Other Income	23	15	54.1	19	18.1	72	72	(0.3)
Finance Cost	3	4	(30.8)	4	(32.5)	15	18	(18.8)
PBT	297	429	(30.8)	415	(28.5)	1,740	1,845	(5.7)
Tax	74	105	(30.3)	99		423	453	(6.6)
PAT	**223**	**323**	(31.0)	**316**	(29.4)	**1,317**	**1,393**	(5.4)

Source: I-Sec research, Company data

Exhibit 3: TCI Express operational review

	Q1FY25	Q1FY24	Chg. YoY (%)	Q4FY24	Chg. QoQ (%)
Volumes (mnte)	0.235	0.240	(2.1)	0.258	(8.9)
Realisation/te growth (%)	(1.9)	0.6		(0.9)	
Tonnage growth (%)	(2.1)	4.3		(1.9)	
Realisation/te (INR)	12,467	12,703	(1.9)	12,291	1.4
Gross Margin/te (INR)	3,579	3,993	(10.4)	3,879	(7.8)
EBITDA/te (INR)	1,393	1,933	(27.9)	1,738	(19.9)

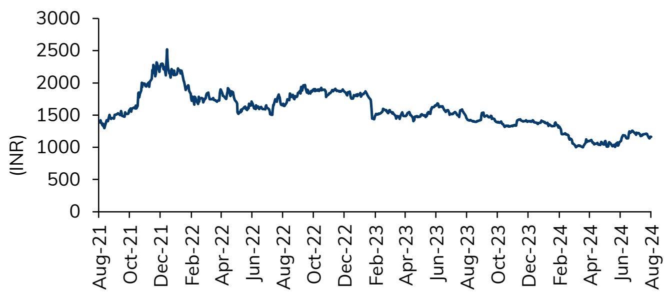
Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	69.6	69.6	69.6
Institutional investors	11.3	11.3	11.8
MFs and others	7.6	8.3	10.1
FIs/Banks	-	-	-
Insurance	0.1	0.1	0.1
FIIs	3.6	2.9	1.6
Others	19.1	19.1	18.6

Source: Bloomberg

Exhibit 5: Price chart



Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	**12,410**	**12,538**	**13,170**	**14,499**
Operating Expenses	1,968	2,080	2,215	2,418
EBITDA	**1,945**	**1,872**	**1,847**	**2,153**
EBITDA Margin (%)	15.7	14.9	14.0	14.9
Depreciation & Amortization	153	190	216	252
EBIT	1,792	1,683	1,631	1,902
Interest expenditure	18	15	15	15
Other Non-operating Income	72	72	75	75
Recurring PBT	**1,845**	**1,740**	**1,691**	**1,962**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	453	423	426	494
PAT	1,393	1,317	1,265	1,468
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**1,393**	**1,317**	**1,265**	**1,468**
Net Income (Adjusted)	**1,393**	**1,317**	**1,265**	**1,468**

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,666	2,921	3,093	3,588
of which cash & cash eqv.	164	204	386	647
Total Current Liabilities & Provisions	1,274	1,300	1,299	1,381
Net Current Assets	**1,392**	**1,621**	**1,795**	**2,206**
Investments	321	900	900	900
Net Fixed Assets	3,439	4,185	4,970	5,720
ROU Assets	-	-	-	-
Capital Work-in-Progress	611	161	161	161
Total Intangible Assets	30	46	46	46
Other assets	282	292	292	292
Deferred Tax Assets	-	-	-	-
Total Assets	**6,076**	**7,205**	**8,163**	**9,324**
Liabilities				
Borrowings	**7**	**30**	**30**	**30**
Deferred Tax Liability	**105**	**135**	**135**	**135**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	77	77	77	77
Reserves & Surplus	5,887	6,963	7,922	9,083
Total Net Worth	**5,964**	**7,040**	**7,999**	**9,160**
Minority Interest	-	-	-	-
Total Liabilities	**6,076**	**7,205**	**8,163**	**9,324**

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	3,200	3,119	3,171	2,930
% growth (YOY)	3.3	(0.8)	(2.8)	(3.9)
EBITDA	505	456	448	327
Margin %	15.8	14.6	14.1	11.2
Other Income	18	20	19	23
Extraordinaries	-	-	-	-
Adjusted Net Profit	356	322	316	223

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**1,468**	**1,361**	**1,492**	**1,572**
Working Capital Changes	(107)	(174)	9	(151)
Capital Commitments	(1,063)	(460)	(1,001)	(1,001)
Free Cashflow	**406**	**900**	**491**	**571**
Other investing cashflow	**409**	**(590)**	**-**	**-**
Cashflow from Investing Activities	(653)	(1,050)	(1,001)	(1,001)
Issue of Share Capital	(509)	22	-	-
Interest Cost	(18)	(15)	(3)	(3)
Inc (Dec) in Borrowings	(3)	22	-	-
Dividend paid	(308)	(307)	(306)	(306)
Others	-	-	-	-
Cash flow from Financing Activities	(837)	(278)	(309)	(309)
Chg. in Cash & Bank balance	**(23)**	**33**	**182**	**261**
Closing cash & balance	157	171	386	647

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	36.4	34.3	33.0	38.3
Adjusted EPS (Diluted)	36.4	34.3	33.0	38.3
Cash EPS	40.4	39.3	38.6	44.8
Dividend per share (DPS)	8.0	8.0	8.0	8.0
Book Value per share (BV)	155.7	183.6	208.6	238.8
Dividend Payout (%)	22.0	23.3	24.2	20.9
Growth (%)				
Net Sales	14.8	1.0	5.0	10.1
EBITDA	11.3	(3.7)	(1.4)	16.6
EPS (INR)	8.6	(5.6)	(3.9)	16.0
Valuation Ratios (x)				
P/E	30.9	32.7	34.1	29.4
P/CEPS	27.8	28.6	29.1	25.1
P/BV	7.2	6.1	5.4	4.7
EV / EBITDA	21.9	22.4	22.6	19.3
Dividend Yield (%)	0.7	0.7	0.7	0.7
Operating Ratios				
Gross Profit Margins (%)	31.5	31.5	30.8	31.5
EBITDA Margins (%)	15.7	14.9	14.0	14.9
Effective Tax Rate (%)	24.5	24.3	25.2	25.2
Net Profit Margins (%)	11.2	10.5	9.6	10.1
Net Debt / Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.2)	(0.6)	(0.7)	(0.7)
Total Asset Turnover (x)	2.3	2.0	1.8	1.8
Inventory Turnover Days	-	-	-	-
Receivables Days	73	71	66	69
Payables Days	31	28	26	27
Profitability Ratios				
RoE (%)	26.7	21.5	18.1	18.2
RoCE (%)	25.9	20.8	17.4	17.6
RoIC (%)	30.5	24.2	20.1	21.0

Source Company data, I-Sec research

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