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Q2FY21 result review
and TP change

Logistics

Target price: Rs1,007

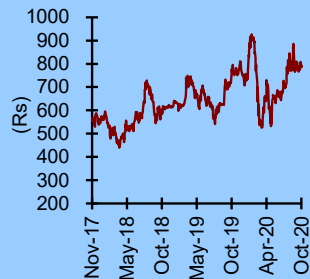
Target price revision
Rs1,007 from Rs878

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	66.9	66.9	66.9
Institutional investors	10.9	11.5	11.8
MFs and others	6.6	8.1	9.7
FIs and Banks	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FII	4.3	3.4	2.1
Others	22.2	21.6	21.3

Source: NSE

Price chart



TCI Express

BUY

Maintained

Rs768

In-line result; continue to exhibit pricing power

TCI Express (TCIE) has reported an in-line operational performance in Q2FY21 with EBITDA of Rs326mn. Topline was down ~21% YoY, due to ~23.5% decline in volumes and ~3% increase in realisations. The flexibility of the asset-light operational model comes to the forefront, with gross margin at ~32% (up 356bps YoY). Further EBITDA margin increased 400bps YoY as TCIE could reduce other expenses by ~30% YoY. Net cash balance continues to improve QoQ, from 700mn end Q1FY21 to Rs 870mn end Q2FY21. Favourable working capital movement (reduction of receivables) and lower-than-guided capex have ensured Rs551mn of FCF in H1FY21. We maintain BUY with a revised target price of Rs1,007/share (Rs878/share earlier).

Conference call on Tuesday, Nov 3, 16:00 hrs IST. [Link](#)

- **Topline at Rs2.13bn was down 21% YoY.** This was mainly due to 23.5% decline in volume, while TCIE could increase realisation by 3% YoY. While some part of the QoQ increase is to account for the price hike in diesel, the price increases undertaken paved the way for gross margin to expand. Gross margin increased 356ps YoY to 32%. Volume is likely to recover over Q3/Q4FY21, and in the process, we expect some dilution in elevated gross margins.
- **EBITDA margin at 15.3%, up nearly 400bps YoY.** While sectoral volumes failed to recover fully in Q2FY21, the extent of pricing power embedded in the model is evident. Apart from expansion in gross margins, TCIE has also ensured to reduce costs meaningfully – employee costs reduced by 16% YoY, other expenses reduced by 30% YoY. Costs effort has resulted in better EBITDA margin.
- **Guidance suggests significantly higher capex in H2FY21.** Significant release in working capital has ensured increase in net cash balance (including current investments) to ~ Rs 870mn in Sep, '20 from Rs412mn end Mar,'20. Capex in H1FY21 is Rs152mn, meaningfully lower than the guided capex of Rs800mn in FY21. The Pune and Gurgaon sorting centre expansion is expected to complete by FY21 which should lead to higher capex in H2FY21.
- **Maintain BUY.** Trucking has been meaningfully impacted on account of Covid-19 pandemic; utilisation has recovered to 75/80% in July and has stabilised at 85% by the end of the quarter. We continue to highlight two trends in the sector– increasing share of railseven in EXIM container trade and relatively better positioning of stronger balance sheet organised sector road transporters i.e. players like TCIE. Both the trends are structural and will accentuate with the advent of DFC and determine our rating rationale on TCIE.

Market Cap	Rs29.5bn/US\$397mn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	HALC.BO/TCIEXP IN	Revenue (Rs mn)	10,320	9,613	11,068	12,632
Shares Outstanding (mn)	38.4	Net Income (Rs mn)	891	902	1,121	1,286
52-week Range (Rs)	926/526	EPS (Rs)	23.3	23.5	29.3	33.6
Free Float (%)	33.1	% Chg YoY	22.3	1.2	24.3	14.7
FII (%)	2.1	P/E (x)	33.1	32.7	26.3	22.9
Daily Volume (US\$/'000)	374	CEPS (Rs)	25.3	26.1	32.5	37.5
Absolute Return 3m (%)	9.1	EV/E (x)	24.2	23.4	18.9	16.3
Absolute Return 12m (%)	2.0	Dividend Yield (%)	0.6	0.6	0.6	0.6
Sensex Return 3m (%)	6.1	RoCE (%)	34.5	29.5	30.0	28.3
Sensex Return 12m (%)	0.2	RoE (%)	26.4	22.2	22.6	21.3

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Table 1: Q2FY21 result review*(Rs mn, Year ending March 31st)*

	Q2FY21	Q2FY20	Chg. YoY (%)	Q1FY21	Chg. QoQ (%)
Net income from operations	2,130	2,695	(21.0)	887	140.0
Total income from operations	2,130	2,695	(21.0)	887	140.0
Operating expenses	1,444	1,928	(25.1)	578	149.8
Gross Margin	685	766	(10.6)	309	121.6
<i>Gross Margin (%)</i>	32.2	28.4		34.8	
Employee wages	221	263	(16.2)	187	17.8
Other expenses	139	196	(29.1)	102	36.7
Total expenses	1,804	2,388	(24.4)	867	108.0
EBITDA	326	307	6.0	20	1503.9
<i>EBITDA Margin (%)</i>	15.3	11.4		2.3	
Depreciation	22	18	17.9	21	2.4
Other Income	15	16	(9.3)	15	(0.7)
Finance Cost	3	3	24.0	1	158.3
PBT	315	302	4.3	13	2403.2
Tax	81	41	94.9	3	
PAT	235	261	(10.0)	9	2453.3

Source: Company data, I-Sec research

Table 2: Performance assessment

	Q2FY21	Q2FY20	Chg. YoY (%)	Q1FY21	Chg. QoQ (%)
Realisation/te growth (%)	3.3	2.5		4.9	
Tonnage growth (%)	(23.5)	6.5		(67.0)	
Realisation/te (Rs)	15,375	14,884	3.3	12,156	26.5
Gross Margin/te (Rs)	4,946	4,233	16.9	4,234	16.8
EBITDA/te (Rs)	2,351	1,696	38.6	278	745.4

Source: Company data, I-Sec research

Assumptions

We maintain our (moderate) volume assumptions for FY21E, keeping in mind the continued uncertainty in business environment expected in H1FY21.

Table 3: Assumptions

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Tonnage (mnte)	0.75	0.85	0.88	0.79	0.90	1.02
Realisation/te	11,801	12,080	11,727	12,137	12,259	12,381
Cost of Sales/te	8,859	8,889	8,343	8,617	8,704	8,828
Realisation/branch (Rsmn)	13.6	14.6	13.4	11.7	12.0	12.4
No of Branches	650	700	770	820	920	1,020
Workforce	2,800	3,000	3,075	3,275	3,675	4,075

Source: Company data, I-Sec research

Maintain BUY with a target price of Rs1,007/share

We maintain **BUY** with a revised target price of Rs1,007/share (previously Rs878/share) based on 30x FY23E EPS.

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Revenue from operations	10,320	9,613	11,068	12,632
Operating Expenses	9,107	8,362	9,523	10,865
EBITDA	1,213	1,251	1,545	1,767
% margins	11.8%	13.0%	14.0%	14.0%
Depreciation & Amortisation	78	98	124	148
Gross Interest	9	3	3	3
Other Income	44	55	80	103
Profit before tax	1,170	1,205	1,498	1,718
Less: Taxes	279	303	377	433
Net Income (Reported)	891	902	1,121	1,286

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	2,222	2,242	2,570	3,098
of which cash & cash eqv.	126	272	368	647
Total Current Liabilities & Provisions	861	896	995	1,105
Net Current Assets	1,361	1,346	1,574	1,992
Net Fixed Assets	1,816	2,518	3,196	3,848
Intangible assets	22	22	22	22
Capital Work-in-Progress	111	111	111	111
Other non-current assets	145	145	145	145
Total Assets	3,454	4,141	5,047	6,118
Liabilities				
Borrowings	40	40	40	40
Deferred Tax Liability	41	41	41	41
Equity Share Capital	77	77	77	77
Reserves & Surplus	3,296	3,983	4,889	5,960
Net Worth	3,373	4,059	4,966	6,036
Total Liabilities	3,454	4,141	5,047	6,118

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Profit before tax	1,170	1,205	1,498	1,718
Depreciation	78	98	124	148
Non-Cash Adjustments	2	3	3	3
Working Capital Changes	(125)	161	(133)	(139)
Taxes Paid	(317)	(303)	(377)	(433)
Operating Cashflow	808	1164	1115	1298
Capital Commitments	(190)	(800)	(801)	(801)
Free Cashflow	618	364	314	497
Other investing cashflow	(283)	0	0	0
Cashflow from Investing Activities	(595)	(800)	(801)	(801)
Inc (Dec) in Borrowings	(59)	0	0	0
Finance cost	(9)	(3)	(3)	(3)
Dividend paid	(213)	(215)	(215)	(215)
Cashflow from Financing Activities	(258)	(218)	(218)	(218)
Chg. in Cash & Bank balance	(45)	146	96	279

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	23.3	23.5	29.3	33.6
Cash EPS	25.3	26.1	32.5	37.5
Book Value per share (BV)	88.1	106.0	129.7	157.7
OCF per share	21.1	30.4	29.1	33.9
FCF per share	16.1	9.5	8.2	13.0
Growth (%)				
Net Sales	0.8	(6.9)	15.1	14.1
EBITDA	1.9	3.1	23.5	14.4
PAT	22.3	1.2	24.3	14.7
Valuation Ratios (x)				
P/E	33.1	32.7	26.3	22.9
P/BV	8.7	7.3	5.9	4.9
EV / EBITDA	24.2	23.4	18.9	16.3
EV / Sales	2.8	3.0	2.6	2.3
Operating Ratios				
Employee cost / Sales (%)	9.9	9.7	8.9	8.8
Effective Tax Rate (%)	23.9	25.2	25.2	25.2
Net D/E Ratio (x)	(0.0)	(0.1)	(0.1)	(0.1)
FCF yield (%)	2.1	1.2	1.1	1.7
Return/Profitability Ratios (%)				
EBITDA Margins	11.8	13.0	14.0	14.0
Net Income Margins	0.1	0.1	0.1	0.1
Return on Equity (RoE)	26.4	22.2	22.6	21.3
RoCE	34.5	29.5	30.0	28.3

Source: Company data, I-Sec research

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