

BSE SENSEX  
54,334

S&P CNX  
16,245

**CMP: INR1,699**

**TP: INR2,130 (+25%)**

**Buy**

**TCIEXPRESS**

LEADER IN EXPRESS

### Stock Info

Bloomberg	TCIEXP IN
Equity Shares (m)	38
M.Cap.(INRb)/(USDb)	65.4 / 0.9
52-Week Range (INR)	2570 / 807
1, 6, 12 Rel. Per (%)	-2/23/76
12M Avg Val (INR M)	181
Free float (%)	33.3

### Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	8.4	11.2	13.3
EBITDA	1.3	1.8	2.2
Adj. PAT	1.0	1.3	1.6
Adj. EPS (INR)	26.2	35.0	42.0
EPS Gr. (%)	12.9	33.6	20.1
BV/Sh. (INR)	112.8	139.8	175.8

### Ratios

Net D/E (x)	-0.1	0.0	0.0
RoE (%)	26.1	27.7	26.6
RoCE (%)	25.7	27.3	26.3
Payout (%)	15.3	22.9	14.3

### Valuations

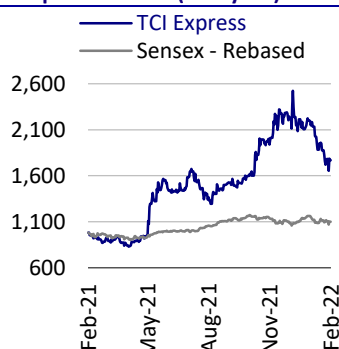
P/E (x)	64.9	48.6	40.5
P/BV (x)	15.1	12.2	9.7
EV/EBITDA (x)	48.4	36.1	29.5
Div. Yield (%)	0.2	0.5	0.4
FCF Yield (%)	1.0	0.0	0.5

### Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	66.7	66.7	66.8
DII	9.5	10.8	10.0
FII	2.1	1.5	2.2
Others	21.6	21.1	21.0

FII Includes depository receipts

### Stock performance (one-year)



## Ticking all the right boxes

- We reiterate our Buy rating with a revised TP of INR2,130, implying a potential upside of 25%. Our investment thesis is premised on: a) its presence in the high margin B2B Express segment, b) investment in value-added areas like sorting centers, c) entry into niche and highly profitable segments, and d) a debt free Balance Sheet.
- TCIE is a well-established player in the Express Logistics segment, with a pan India presence and catering to 95% of pin codes. It has a well-diversified client base with a focus on the high margin B2B space (95% share).
- With a lease-based model for most of its required assets, TCIE enjoys greater operational flexibilities and generates a better return on assets. It is investing in sorting centers, which will usher a higher level of automation and better efficiency. TCIE has just operationalized its Pune sorting center, while its Gurugram center will be operational in 4QFY22.
- In recent times, TCIE has entered into newer segments like Rail Express, Cold Chain Solutions, and Customer-to-Customer (C2C) Express. This will increase its addressable market and generate a similar or better margin.
- We lower our FY23/FY24 EBITDA estimate by 5%/2% and earnings estimate by 4%/1% to factor in the expected increase in fuel price in the near term. We expect TCIE to clock a revenue/EBITDA/PAT CAGR of ~22%/28%/27% over FY21-24E. The recent stock price correction provides an attractive entry point in our opinion.

## Volumes back to pre-COVID levels, with strong festive demand; new segments to aid future growth

- The easing of restrictions and robust festive demand resulted in a strong pickup in volumes over the last few months. Improved volumes and tighter cost controls aided margin performance (EBITDA at 16-17% levels).
- The niche segments of Rail Express, C2C, and Cold Chain are performing well. These high growth and margin segments, along with Air Express, are expected to constitute 25% of revenue by FY25 v/s 10-15% at present.

## Robust industry outlook brightens TCIE's prospects

- The Express Logistics industry is expected to clock robust growth, with: a) growing demand for faster delivery, b) improved road connectivity, reducing the turnaround time, c) growth in e-commerce, and d) reforms like GST.
- Given its strong network, it is well positioned to capitalize on this opportunity.

## Valuation and view

- While branch additions and entry into newer segments will help cater to higher volumes, investment in sorting centers and automation will improve efficiency and aid margin. We derive comfort from its asset light business model, leading to a debt-free Balance Sheet and higher return ratios (~27%).
- We expect TCIE to clock a revenue/EBITDA/PAT CAGR of ~22%/28%/27% over FY21-24E. The stock trades at 32x FY24E EPS. We reiterate our Buy rating, with a revised TP of INR2,130/share (40x FY24E EPS).

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Service offerings

Exhibit 1: A wide range of service offerings

Solutions	Details
<b>B2B</b> (Contributes 95% to TCIE's revenue)	<b>Key characteristics of the B2B segment:</b> a) driven by the Manufacturing sector, b) sticky clientele, c) more profitable than the B2C segment, d) relatively less competition, and e) relatively low-tech usage
<b>Segments under B2B</b>	
Surface Express	❖ Offers customized solutions across 40,000 locations through ~800 branches and ~5,000 containerized vehicles
Domestic and International Air Express	❖ Domestic: Connects 24 airports, provides 24 hours delivery in Tier I cities, and multi-modal options in smaller towns ❖ International: Provides services in more than 200 countries globally. Additionally provides options of third country billing
Rail Express	❖ Delivers smaller cargoes of B2B customers in passenger trains
Pharma Cold Chain	❖ Dispatches Pharmaceutical shipments either frozen (blood plasma) or vaccines at the prescribed temperature
<b>B2C</b> (Contributes 5% to TCIE's revenue)	<b>Key characteristics of the B2C segment:</b> a) driven by e-commerce, b) price sensitive, c) new entrants are capturing market share fast, and d) heavy tech usage
<b>Segments under B2C</b>	
e-commerce Express	❖ Offers multi-model distribution solutions for optimum timely delivery, with value added services such as cash on delivery and definite time deliveries. The management's focus is on Tier II and III cities
<b>C2C Express</b>	❖ <b>Key characteristics of the C2C segment:</b> Multi-location door-to-door pick-up and delivery of cargo

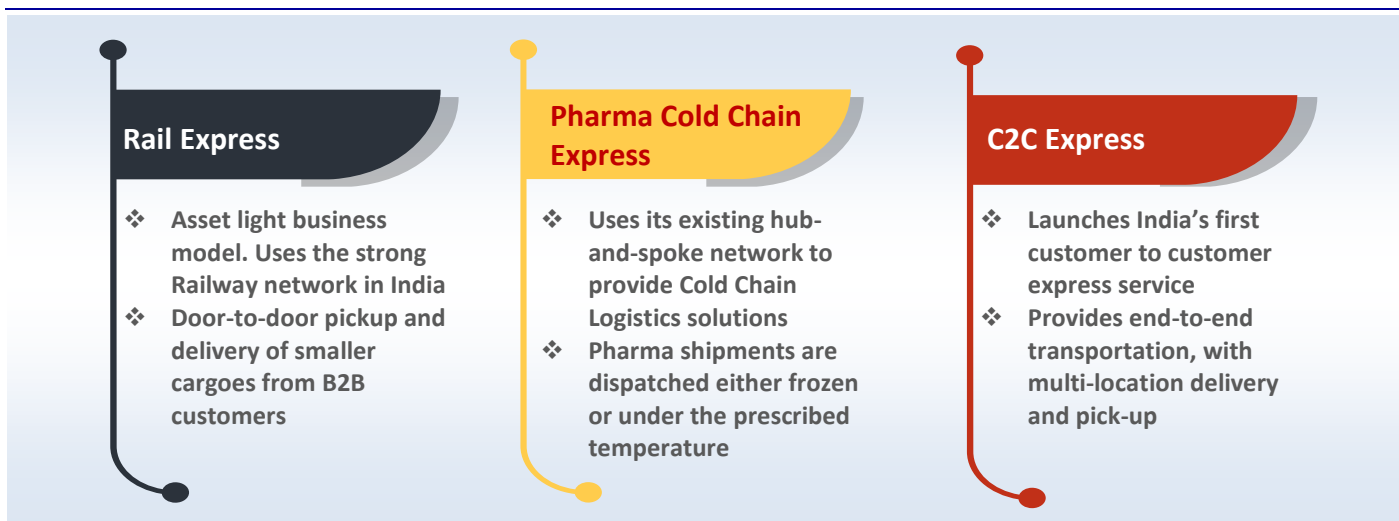
Source: Company, MOFSL

New services (including Air Express) are expected to contribute 25% to topline by CY25 from 10-15% currently

### New service offerings

TCIE launched Rail Express, Pharma Cold Chain, and C2C Express in the last two years to enhance its value proposition, while maintaining an asset light model. These services have received a good amount of traction and have helped in increasing its customer base.

#### New Value-added service offerings include



### Rail Express

It offers high value service at lower cost. TCIE leverages India's strong Railway network to deliver smaller cargoes of B2B customers using the cargo compartment in passenger trains. It competes with the Air Express segment of its competitors.

#### Key features include:

- An asset light model. It buys space in passenger trains to ensure higher capacity utilization.
- Competes with the Air Express segment of its competitors. TCIE focuses on delivering high value service at lower cost (less than one-third of air freight rates).
- It provides uninterrupted transportation, with a shorter turnaround time.
- Is able to deliver segmental EBITDA margin of 20-25%.

### Pharma Cold Chain Express

Has delivered 10.5m vaccines till Sep'21

It launched a value added service to meet the growing demands of the Pharma industry. It is used to dispatch frozen Pharma shipments (blood plasma) or vaccines under prescribed temperatures. It ensures no fluctuation in temperature. The segment offers strong growth opportunities as the cold storage space in India is highly unorganized, and geographic distribution is uneven.

#### Key features include:

- Uses its existing hub and spoke network to meet growing demand for cold chain Logistics.
- Regular monitoring of temperature through data loggers and real-time monitoring through tracer.
- Minimal capex requirement.

### C2C Express

It is an end-to-end transportation service, with a multi-location delivery and pickup feature. It is used for the movement of high value cargo on flexible routes.

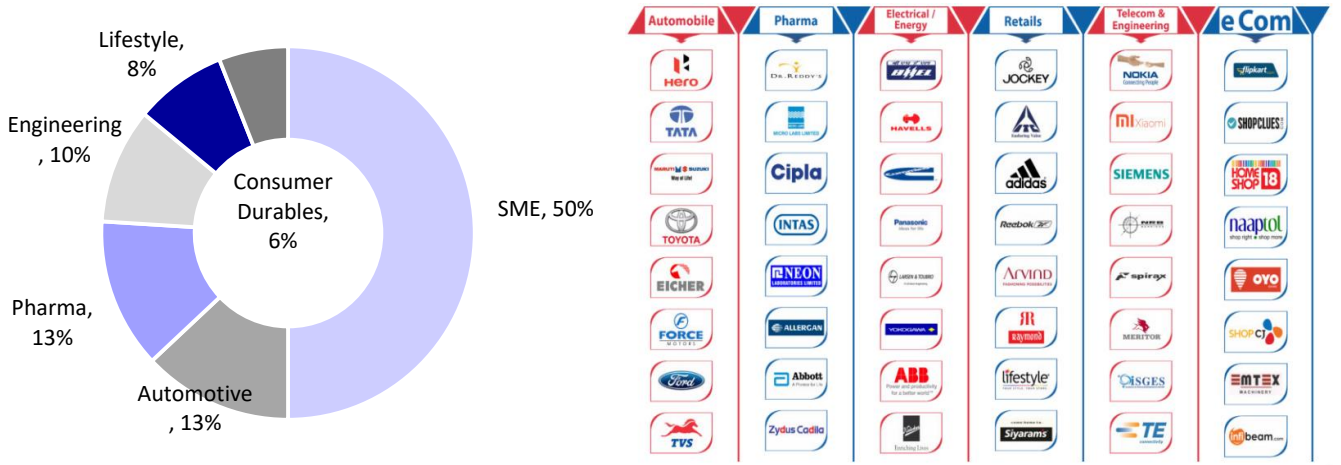
The service is being offered through two modes:

- a) **Fast trucking:** Minimizes connections and travel time by connecting a set of locations directly without any interruption in service.
- b) **Milk run:** It offers pick up from multiple locations and delivery at a single location or vice-versa. It provides real-time location tracking through GPS and temperature tracking through tracer.

### Well diversified client mix

TCIE’s well-diversified client mix highlights its experience in dealing with different sets of industries, where the Logistics requirements are very different in terms of packaging, handling, etc. It provides scope to scale up and offers protection during downturns. The SME segment constitutes 50% of revenue, with no single client contributing significantly to revenue. This is a big positive.

Exhibit 2: A well-diversified client base (FY21)

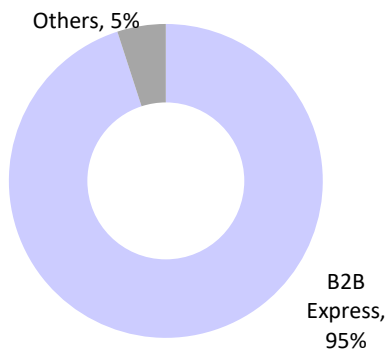


Source: Company, MOFSL

### Business driven by high growth B2B segment

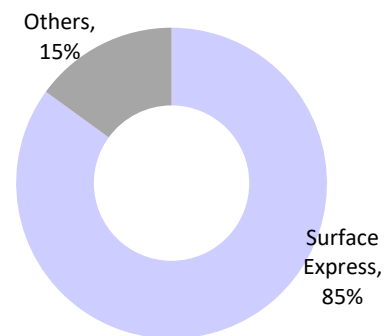
TCIE almost entirely caters to B2B customers, especially SMEs. These customers are sticky and don’t change Logistics providers quickly, purely based on low pricing. This ensures volume growth, while maintaining its margin profile. In the B2C segment, the management’s focus is on e-commerce customers, ensuring no major margin dilution while garnering business. The share of B2B is expected to remain at similar levels over the next few years, which would ensure stability in its performance. The company is present in the high growth Surface segment, which is the most cost effective and is expected to grow faster than Air Express. It is present in the right sub-segments and is well placed to capitalize on upcoming opportunities.

Exhibit 3: B2B constitutes a major portion of the business



Source: Company, MOFSL

Exhibit 4: Driven by high growth in the Surface segment



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

## Investment in sorting centers to create efficiency

TCIE aims to cut down the latent time taken at its sorting centers by around eight hours from 15-16 hours

The company operates 28 sorting centers, of which 10/18 are owned/leased. Going forward, it plans to own five additional sorting centers (Kolkata, Nagpur, Chennai, etc.), leading to a change in the ratio of its owned/leased sorting centers to 15/13. TCIE is focused on automating its sorting centers to cut down the latent time taken by its trucks by about eight hours from 15-16 hours at present. With this, additional truck trips/month can be taken, leading to higher operational efficiencies.

It is the first B2B Express Delivery company in India to install a conveyor belt for heavy cargo at its Gurugram sorting center. This will help reduce the halting time of trucks by ~40% and improve overall operational efficiency. Similar automation will be replicated at other sorting centers based on the success of its Gurugram center.

## Capex in sorting centers to improve turnaround time



Gurugram center



Pune center

### Key characteristics

- ❖ Spread over 200,000 sq. ft.
- ❖ Can generate 800KW of solar power
- ❖ Expects completion in Feb'22
- ❖ Fully automated

### Key characteristics

- ❖ Spread over 150,000 sq. ft.
- ❖ Can generate 600KW of solar power
- ❖ Operational since Jun'21

Source: MOFSL

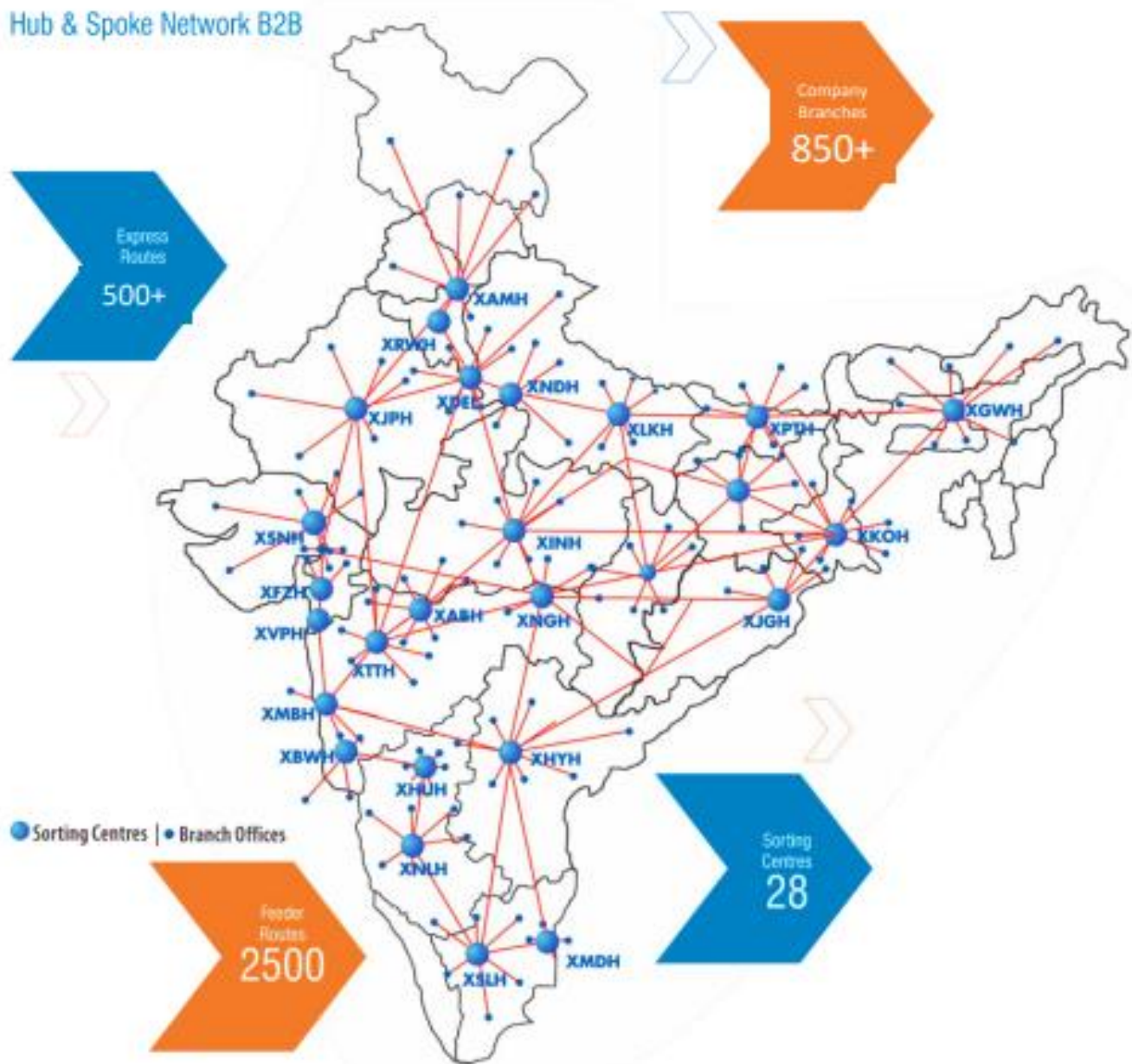
## Implementation of technology

- TCIE has an API-based back-end technology and ERP enabled operations that automate business processes and provide insights and internal controls.
- Barcoding on packaging and GPS-enabled vehicles aid in efficient tracking of packages.
- All sorting centers and branches in India are under CCTV surveillance.

## Well diversified network presence

TCIE specializes in offering time definite solutions, with a focus on Tier II and III cities. It has built an enviable network and operates at a pan India level. The company services over 40,000 locations across 202 countries through a network of more than 850 branches. It is continuously focusing on increasing its presence through new branch additions. In 9MFY22, the company added 35 new branches.

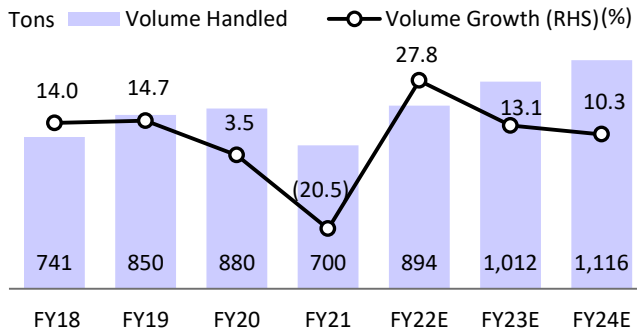
Exhibit 5: Pan India presence



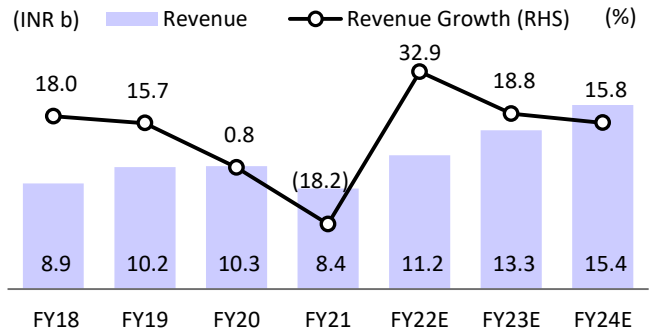
Source: Company, MOFSL

## Financial story in charts

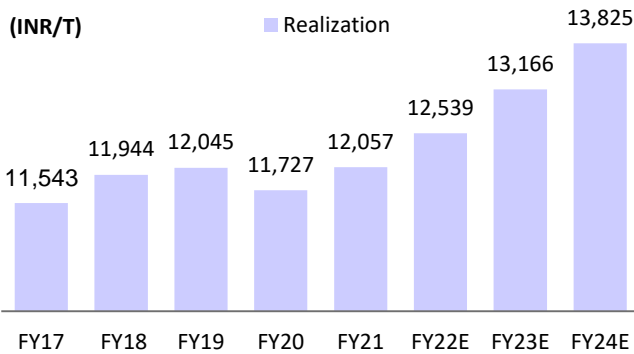
**Exhibit 6: Robust volumes to drive revenue**



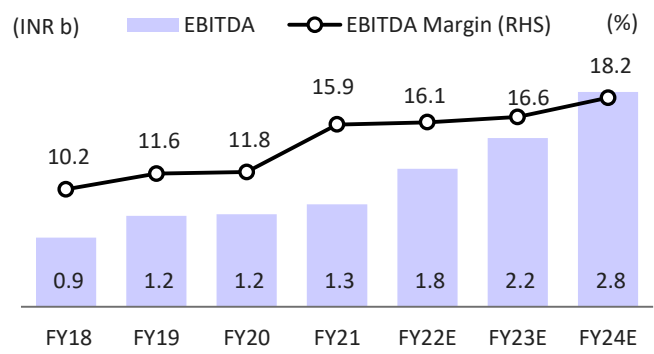
**Exhibit 7: Revenue growth trend**



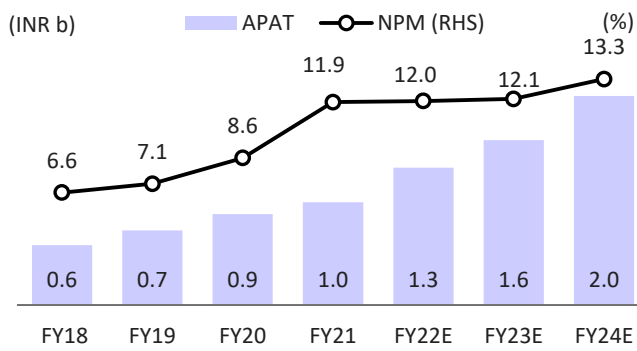
**Exhibit 8: Realization to pick up with regular price increases**



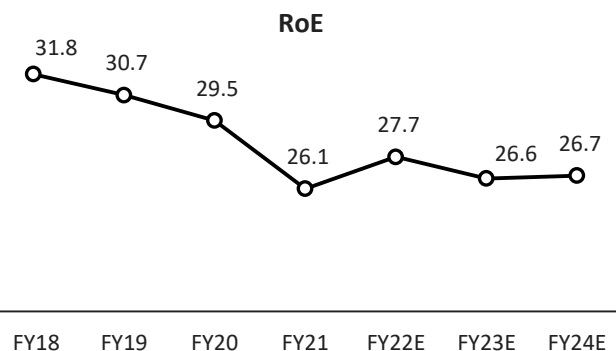
**Exhibit 9: Margin to remain strong**



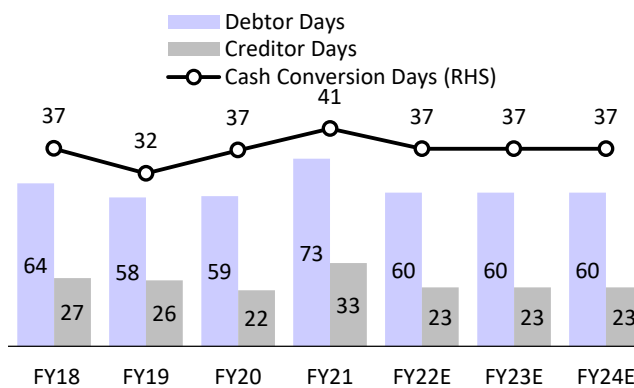
**Exhibit 10: ...along with an improvement in PAT margin**



**Exhibit 11: Expect RoE to remain robust ~27%**

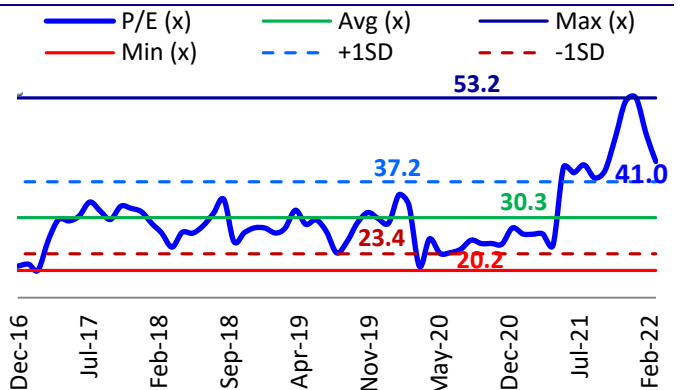


**Exhibit 12: Comfortable working capital position**



Source: Company, MOFSL

**Exhibit 13: One-year forward P/E (x)**



Source: Company, MOFSL

## Financials and valuations

### Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>8,851</b>	<b>10,238</b>	<b>10,320</b>	<b>8,440</b>	<b>11,215</b>	<b>13,324</b>	<b>15,428</b>
Change (%)	18.0	15.7	0.8	-18.2	32.9	18.8	15.8
Gross Margin (%)	24.9	26.4	28.9	32.9	32.0	31.1	32.2
<b>EBITDA</b>	<b>907</b>	<b>1,190</b>	<b>1,213</b>	<b>1,343</b>	<b>1,807</b>	<b>2,208</b>	<b>2,815</b>
Margin (%)	10.2	11.6	11.8	15.9	16.1	16.6	18.2
Depreciation	52	65	78	90	93	136	169
<b>EBIT</b>	<b>855</b>	<b>1,125</b>	<b>1,135</b>	<b>1,254</b>	<b>1,714</b>	<b>2,072</b>	<b>2,646</b>
Int. and Finance Charges	38	38	9	8	6	3	2
Other Income	21	32	44	77	82	88	94
<b>PBT</b>	<b>838</b>	<b>1,119</b>	<b>1,170</b>	<b>1,322</b>	<b>1,789</b>	<b>2,157</b>	<b>2,738</b>
Tax	254	390	279	316	446	544	690
Effective Tax Rate (%)	30.3	34.9	23.9	23.9	24.9	25.2	25.2
<b>Reported PAT</b>	<b>584</b>	<b>728</b>	<b>891</b>	<b>1,006</b>	<b>1,344</b>	<b>1,613</b>	<b>2,048</b>
Change (%)	55.8	24.7	22.3	12.9	33.6	20.1	26.9
Margin (%)	6.6	7.1	8.6	11.9	12.0	12.1	13.3

### Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	77	77	77	77	77	77	77
Total Reserves	1,992	2,595	3,296	4,262	5,298	6,681	8,479
<b>Net Worth</b>	<b>2,068</b>	<b>2,672</b>	<b>3,373</b>	<b>4,339</b>	<b>5,375</b>	<b>6,758</b>	<b>8,555</b>
Deferred Tax Liabilities	43	55	41	54	54	54	54
Total Loans	407	98	40	22	20	19	17
<b>Capital Employed</b>	<b>2,518</b>	<b>2,825</b>	<b>3,454</b>	<b>4,415</b>	<b>5,449</b>	<b>6,830</b>	<b>8,626</b>
Gross Block	1,798	1,961	2,126	2,629	3,629	4,629	5,629
Less: Accum. Deprn.	179	230	272	345	439	574	743
<b>Net Fixed Assets</b>	<b>1,620</b>	<b>1,731</b>	<b>1,854</b>	<b>2,284</b>	<b>3,190</b>	<b>4,055</b>	<b>4,886</b>
Capital WIP	0	14	230	278	278	278	278
<b>Total Investments</b>	<b>0</b>	<b>13</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>1,818</b>	<b>2,033</b>	<b>2,222</b>	<b>2,865</b>	<b>3,037</b>	<b>3,754</b>	<b>4,919</b>
Inventory	0	0	0	0	0	0	0
Account Receivables	1,544	1,631	1,658	1,695	1,844	2,190	2,536
Cash and Bank Balances	122	171	126	272	58	215	821
Loans and Advances	71	85	92	109	145	173	200
Others	82	145	346	789	990	1,176	1,362
<b>Current Liab. and Prov.</b>	<b>921</b>	<b>964</b>	<b>861</b>	<b>1,022</b>	<b>1,066</b>	<b>1,266</b>	<b>1,466</b>
Account Payables	646	724	620	752	707	840	972
Other Current Liabilities	242	200	195	228	302	359	416
Provisions	33	41	47	43	57	67	78
<b>Net Current Assets</b>	<b>898</b>	<b>1,069</b>	<b>1,360</b>	<b>1,843</b>	<b>1,971</b>	<b>2,488</b>	<b>3,452</b>
<b>Application of Funds</b>	<b>2,518</b>	<b>2,825</b>	<b>3,454</b>	<b>4,415</b>	<b>5,449</b>	<b>6,830</b>	<b>8,626</b>



## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	15.2	18.9	23.2	26.2	35.0	42.0	53.3
EPS growth (%)	55.8	24.7	22.3	12.9	33.6	20.1	26.9
Cash EPS	16.5	20.6	25.2	28.5	37.4	45.5	57.6
BV/Share	53.8	69.5	87.7	112.8	139.8	175.8	222.5
DPS	2.5	3.0	4.0	4.0	8.0	6.0	6.5
Payout (incl. Div. Tax, %)	22.1	18.4	23.9	15.3	22.9	14.3	12.2
<b>Valuation (x)</b>							
P/E	111.9	89.7	73.3	64.9	48.6	40.5	31.9
Cash P/E	102.7	82.3	67.4	59.6	45.5	37.3	29.5
EV/EBITDA	72.4	54.8	53.8	48.4	36.1	29.5	22.9
EV/Sales	7.4	6.4	6.3	7.7	5.8	4.9	4.2
P/BV	31.6	24.4	19.4	15.1	12.2	9.7	7.6
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.5	0.4	0.4
<b>Return Ratios (%)</b>							
RoE	31.8	30.7	29.5	26.1	27.7	26.6	26.7
RoCE	27.3	28.2	28.6	25.7	27.3	26.3	26.5
RoIC	28.5	29.2	30.2	27.5	28.7	27.1	28.6
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	6.0	5.4	5.1	3.5	3.6	3.2	3.0
Asset Turnover (x)	3.5	3.6	3.0	1.9	2.1	2.0	1.8
Inventory (Days)	0	0	0	0	0	0	0
Debtors (Days)	64	58	59	73	60	60	60
Creditors (Days)	27	26	22	33	23	23	23
<b>Leverage Ratio (x)</b>							
Net Debt/Equity ratio	0.1	0.0	0.0	-0.1	0.0	0.0	-0.1

### Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	838	1,119	1,170	1,322	1,789	2,157	2,738
Depreciation	52	65	78	90	93	136	169
Direct Taxes Paid	-241	-388	-317	-284	-446	-544	-690
(Inc.)/Dec. in WC	41	-50	-125	-249	-356	-337	-336
Other Items	48	29	2	310	-76	-85	-91
<b>CF from Operations</b>	<b>739</b>	<b>775</b>	<b>808</b>	<b>1,189</b>	<b>1,006</b>	<b>1,327</b>	<b>1,789</b>
(Inc.)/Dec. in FA	-627	-193	-188	-545	-1,000	-1,000	-1,000
<b>Free Cash Flow</b>	<b>112</b>	<b>582</b>	<b>620</b>	<b>644</b>	<b>6</b>	<b>327</b>	<b>789</b>
Change in Investments	0	-13	-283	-439	0	0	0
Others	-1	-51	-124	24	95	64	71
<b>CF from Investments</b>	<b>-628</b>	<b>-256</b>	<b>-595</b>	<b>-960</b>	<b>-905</b>	<b>-936</b>	<b>-929</b>
Inc./(Dec.) in Debt	91	-299	-36	2	-2	-2	-2
Dividends Paid	-129	-134	-213	-77	-308	-231	-250
Others	-38	-38	-9	-8	-6	-2	-2
<b>CF from Fin. Activity</b>	<b>-76</b>	<b>-470</b>	<b>-258</b>	<b>-83</b>	<b>-315</b>	<b>-235</b>	<b>-254</b>
<b>Inc./(Dec.) in Cash</b>	<b>34</b>	<b>49</b>	<b>-45</b>	<b>146</b>	<b>-214</b>	<b>157</b>	<b>606</b>
Opening Balance	88	122	171	126	272	58	215
<b>Closing Balance</b>	<b>122</b>	<b>171</b>	<b>126</b>	<b>272</b>	<b>58</b>	<b>215</b>	<b>821</b>

NOTES

Explanation of Investment Rating	
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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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