

Industry	Logistics
Bloomberg	TCIEXP IN
BSE CODE	540212

Volume Growth impacted post Diwali, margins continue to expand

RATING	NEUTRAL
CMP	621
Price Target	609
Potential Upside	-2%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	739/425
Mkt Capital (Rs Cr)	2,378
Free float (%)	34%
Avg. Vol 1M (,000)	38
No. of Shares (Crs)	3.83
Promoters Pledged %	0%

Research Analyst
CHINTAN BHINDORA
Chintan.bhindora@narnolia.com
+91-22-62701206

3QFY19 Result Update

- TCIEXP posted a revenue growth of 14.9% YoY to INR 263 crores (Our expectation of INR 271 crores) on the back of 11% YoY growth in tonnage and balance due to price hikes.
- Gross margin expanded by 200bps YoY to 26.2% (our expectation of 26.3%) in Q3FY19 as TCIEXP continues to be largely immune from diesel price volatility due to its fuel surcharge mechanism.
- EBITDA margin expanded by 130bps YoY to 11.8% (our expectation of 11.7%) in 3QFY19 largely due to improvement in gross margin. This was however partially offset by higher employee & other expenses as a % of sales.
- Higher other expenses were on account of increased rentals due to addition of space for sorting centers while employee expenses increased on account of accelerated hiring to meet higher demand going forward.
- PAT for the quarter stood at INR 19 crores (21.4% YoY growth). Tax rate came in higher at 35.2% as against 29.9% in Q3FY18.

View and Valuation

Despite adding 20 branches QoQ, company has been able to expand its EBITDA margins by 130bps YoY & 70bps QoQ. This is primarily due to higher client wins in SME space & price hikes (fuel surcharge clause to offset rising fuel prices). Management has reiterated its volume growth guidance of 18-22% over the next 2-3 years with an exit EBITDA margins target of 13% in FY20. However, given the higher base, we expect a volume growth of around 14.4%/14.7% for FY19/FY20.

Going forward, management has set a target to double revenues and quadruple its profits over the next four years. Management is also looking to increase the proportion of owned warehouses from the current 30% to 60% in 2-3 years. To achieve this, management has earmarked INR 80 crores annually for FY20-22.

We expect TCIEXP to deliver revenue, EBITDA and PAT CAGR of 18.4%, 31.9% & 28.8% respectively over FY18-20e. We continue to believe that stock is fairly priced. Hence, we maintain our NEUTRAL rating on the stock with a target price of INR 609 (15x FY20e EV/EBITDA).

Key Risks to our rating and target

- Any slowdown in demand due to the rising fuel cost
- Lower than expected EBITDA margins expansion

KEY FINANCIAL/VALUATIONS	FY16*	FY17	FY18	FY19E	FY20E
Net Sales	663	750	885	1044	1241
EBITDA	55	62	91	120	158
EBIT	49	58	85	115	149
PAT	29	37	58	74	97
EPS (Rs)	8	10	15	19	25
EPS growth (%)	8%	28%	55%	27%	32%
ROE (%)	26%	26%	32%	31%	31%
ROCE (%)	37%	32%	39%	41%	43%
BV	32	42	54	70	91
P/B (X)	11.4	9.4	8.8	8.9	6.8
P/E (x)	48.4	40.4	31.2	32.3	24.5
EV/EBITDA (x)	26.3	24.8	20.3	20.0	15.3

* Based on Issue Price

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

3QFY19 Results

Stable Performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	229	249	248	247	263	14.9%	6.5%	750	885	18.0%
Other Income	1	1	1	1	1	10.0%	-18.5%	1	2	51.7%
Operating	174	182	187	183	194	11.8%	6.0%	577	664	15.2%
Gross Margin	24.2%	26.9%	24.6%	25.9%	26.2%	2.0%	0.3%	23.2%	24.9%	1.8%
Employee Cost	18	20	21	22	21	19.6%	-3.0%	59	73	23.3%
Other Expenses	14	18	13	15	17	23.8%	13.4%	53	57	8.5%
EBITDA	24	28	27	27	31	28.8%	13.5%	62	91	46.4%
EBITDA Margin	10.5%	11.4%	10.9%	11.0%	11.8%	1.3%	0.7%	8.3%	10.2%	2.0%
Depreciation	1	2	1	2	2	29.0%	-0.6%	4	5	20.6%
Interest	1	1	1	1	1	-23.1%	-4.6%	2	4	54.0%
Tax	7	8	9	9	10	54.9%	12.5%	19	25	33.4%
Net Profit	15	18	16	16	19	21.4%	15.1%	37	58	55.8%
PAT Margin	6.7%	7.1%	6.5%	6.6%	7.1%	0.4%	0.5%	5.0%	6.6%	1.6%

Robust Revenue Growth driven by contract logistics segment

TCIEXP delivered slightly below expectations revenue growth in 2QFY19. The company posted a revenue growth of 14.9% YoY to INR 263 crores (Our expectation of INR 271 crores) driven by 11% YoY tonnage growth and balance due to price hikes.

EBITDA margins expanded YoY due to higher gross margins & operational efficiencies

Gross margin expanded by 200bps YoY to 26.2% (our expectation of 26.3%) in Q3FY19 as TCIEXP continues to be largely immune from diesel price volatility due to its fuel surcharge mechanism. EBITDA margin expansion was limited to 130bps YoY to 11.8% (our expectation of 11.7%) in 3QFY19 due to higher employee & other expenses as a % of sales. Other expenses came in higher on account of increased rentals due to addition of space for sorting centers while employee expenses increased on account of accelerated hiring to meet higher demand going forward.

PAT grew by 21.4% YoY despite higher depreciation & higher tax rate YoY

PAT for the quarter stood at INR 19cr with a growth of 21.4% YoY. Despite a 28.8% growth in EBITDA, PAT growth was lower due to higher depreciation (grew by 29% YoY) & higher tax rate (35.2% in Q3FY19 as compared to 29.9% in Q3FY18).

Concall Highlights

- Tonnage growth of 11% in Q3FY19 as against 17% in Q2FY19. Out of the 15% topline growth, 5% was due to new client wins. Lukewarm demand post Diwali led to lower than expected volume growth.
- 10% of total revenues come from Air express segment where the margin profile is slightly better compared to road.
- Contribution of Top 10 customers to the total revenue continues to be less than 10%.
- Currently, capacity utilization stands at 86% from around 80%, 2-3 years ago.
- Total clientele at 2 lacs as on September 30, 2018. Added around 2000 clients in H1FY19. Q3FY19 saw higher SME client addition.
- Higher other expenses were primarily on account of increased rentals due to addition of space for sorting centers.
- Diesel Fuel surcharge is passed on to 80% clients every month on a formula basis. While for the balance 20%, company has managed to insert diesel fuel surcharge from FY20 onwards. Management has guided for an increase in fuel surcharge from April 2019 across all customers.
- Company has 28 sorting centers currently, out of which 10 are owned while others are on a lease basis. Land has been acquired for new sorting centers at Delhi, Pune, Indore, Nagpur & Kolkata. 1 sorting centre to be added in FY19. Rest in FY20. Management is targeting to own 60% of sorting centers in 2-3 years time. Currently, 30% is owned out of the total warehousing space of 2.2mn sq ft.
- Company is expanding to Tier 2 & 3 cities. TCIEXP opened 20 new branches in Q3. 9MFY19 capex of INR 22cr. Full year capex guidance of 40-45cr. FY20 capex guidance of 80cr. Capex primarily towards increasing the size of the sorting centers and taking the number of offices from 650 in FY18 to around 1000 offices in 2 years.
- Volume growth guidance of 18-22% over the next 2-3 years with an exit EBITDA margins target of 13% in 2 years. Management is targeting an EBITDA margin of around 15% in 5-6 years.

Exhibit: Net sales (Rs. Crore) and Sales Growth trend
Sales growth moderated to 15% after 4 quarters of over 20% growth

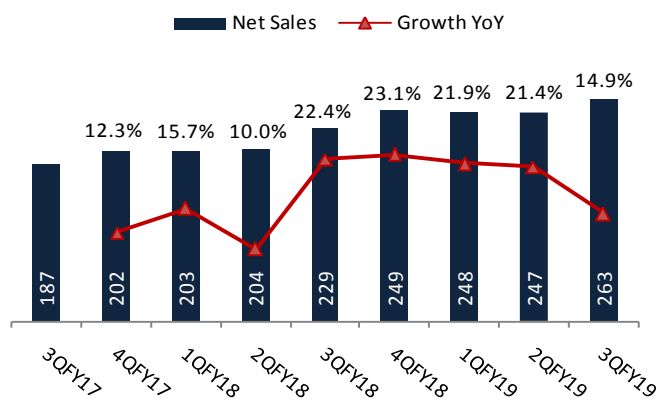


Exhibit: GP (Rs. Crore) and Gross Margin trend
Gross margins rose YoY by 200bps driven by operational efficiencies

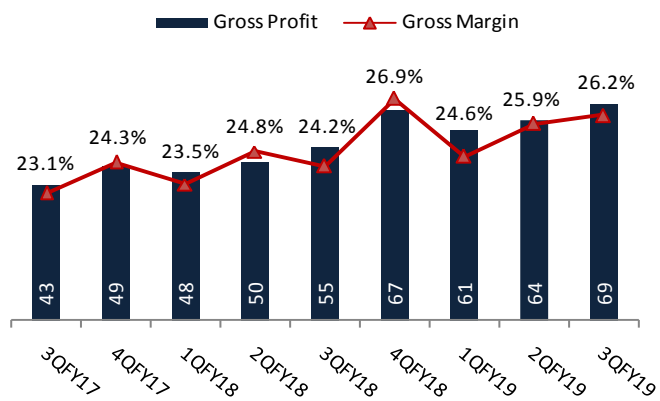


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend
200bps gross margin improvement was offset partially by higher other expenses led to 130bps YoY improvement, EBITDA growth of 29%

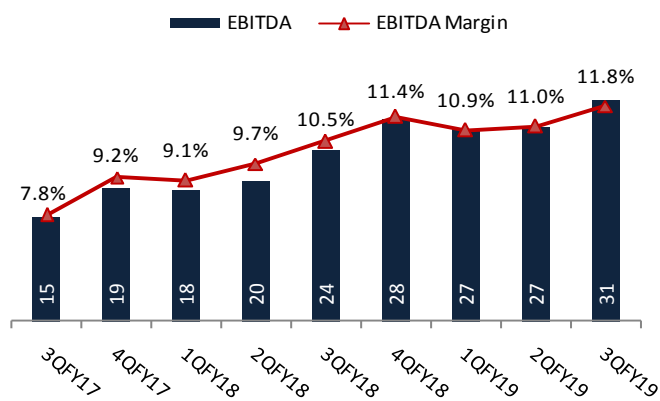


Exhibit: PAT (Rs. Crore) and PAT Margin trend
PAT grew by 21% YoY despite higher depreciation & higher tax rate, PAT margins remained expanded beyond 7%.

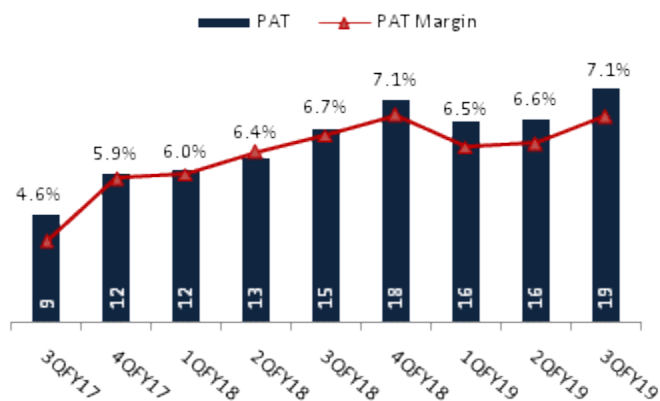


Exhibit: Debt Equity Ratio

Debt Equity ratio to improve going ahead as profitability & cash flows improve

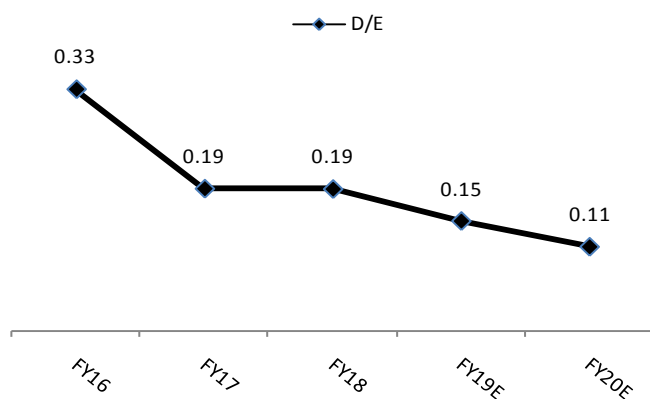
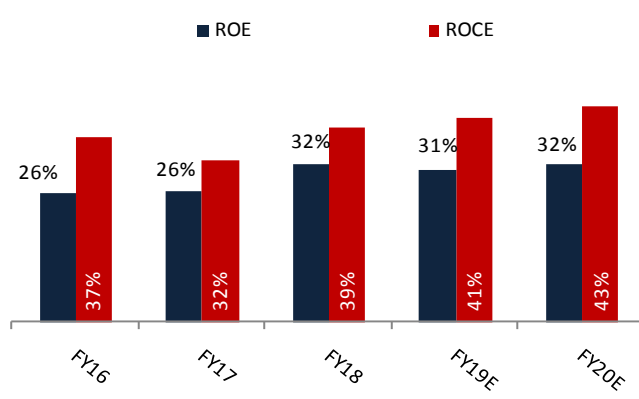


Exhibit: Return Ratios

Return ratios expected to remain strong going ahead as well



Financial Details

Balance Sheet

Y/E March	FY16*	FY17	FY18	FY19E	FY20E
Equity Share Capital ²	8	8	8	8	8
Reserves	115	153	199	260	343
Networth	123	161	207	268	350
Debt	40	31	40	40	40
Other Non Current Liab	2	3	4	4	4
Total Capital Employed	166	195	251	312	394
Net Fixed Assets (incl CWIP)	73	105	162	225	296
Non Current Investments	-	-	-	-	-
Other Non Current Assets	3	5	5	5	5
Non Current Assets	76	110	167	230	302
Inventory	-	-	-	-	-
Debtors	105	113	154	172	204
Cash & Bank	11	9	12	10	5
Other Current Assets	7	13	10	12	14
Current Assets	123	134	177	193	223
Creditors	23	37	65	74	87
Provisions	2	2	3	4	5
Other Current Liabilities	8	10	25	33	39
Curr Liabilities	33	49	93	111	130
Net Current Assets	90	85	84	82	93
Total Assets	198	244	344	423	525

*As reported

Income Statement

Y/E March	FY16*	FY17	FY18	FY19E	FY20E
Revenue from Operation	663	750	885	1,044	1,241
<i>Change (%)</i>	0.7%	13.1%	18.0%	18.0%	18.8%
Other Income	-	1	2	3	3
EBITDA	55	62	91	120	158
<i>Change (%)</i>	5.1%	13.5%	46.4%	32.5%	31.4%
Margin (%)	8.2%	8.3%	10.2%	11.5%	12.7%
Depr & Amor.	5	4	5	6	9
EBIT	49	58	85	115	149
Finance Costs	5	2	4	4	4
EBT	44	57	84	113	148
Tax	15	19	25	40	51
Reported PAT	29	37	58	74	97
<i>Change (%)</i>	8.5%	29.3%	55.8%	25.9%	31.8%
Margin(%)	4.4%	5.0%	6.6%	7.0%	7.8%

* Pre demerger data

Financial Details

Key Ratios

Y/E March	FY16*	FY17	FY18	FY19E	FY20E
ROE	25.8%	26.4%	31.6%	31.0%	31.4%
ROCE	37.1%	32.4%	39.0%	41.4%	42.7%
Asset Turnover	6.2	3.4	3.0	2.7	2.6
Debtor Days	58	55	64	60	60
Inv Days	-	-	-	-	-
Payable Days		24	35	35	35
Int Coverage	9	24	23	31	40
P/E	48	40	31	32	25
Price / Book Value	11.4	9.4	8.8	8.9	6.8
EV/EBITDA	26.3	24.8	20.3	20.0	15.3

* Based on Issue Price

Cash Flow Statement

Y/E March	FY16*	FY17	FY18	FY19E	FY20E
PBT	(0)	57	84	113	148
(inc)/Dec in Working Capital	(77)	8	4	(1)	(15)
Non Cash Op Exp	0	5	6	7	9
Int Paid (+)	-	2	4	4	4
Tax Paid	-	(20)	(24)	(40)	(51)
others	(0)	0	0	(3)	(3)
CF from Op. Activities	(77)	52	74	81	91
(inc)/Dec in FA & CWIP	(73)	(38)	(63)	(70)	(80)
Free Cashflow	(150)	14	11	10	11
(Pur)/Sale of Inv	-	-	-	-	-
others	(3)	(1)	(0)	3	3
CF from Inv. Activities	(76)	(39)	(63)	(68)	(78)
inc/(dec) in NW	123	-	-	-	-
inc/(dec) in Debt	40	(9)	9	-	-
Int. Paid	-	(2)	(4)	(4)	(4)
Div Paid (inc tax)	-	(4)	(13)	(12)	(14)
others	-	-	-	-	-
CF from Fin. Activities	163	(15)	(8)	(16)	(18)
Inc(Dec) in Cash	11	(2)	3	(3)	(5)
Add: Opening Balance	0	11	9	12	9
Closing Balance	11	9	12	9	5

*As reported

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.