October 01, 2021

TCI Express Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	25.00	25.00	[ICRA]A1+; Reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the strong operational performance of TCI Express Limited (TCI Express), with the company continuing to benefit from its widespread infrastructure, integrated operations and established brand strength in the express distribution business. Despite a moderation in earnings in FY2021 and Q1 FY2022 led by the challenges brought about by the pandemic, TCI Express continued to maintain a healthy operating and financial profile, supported by its conservative capital structure and resilient business model. It was able to improve its operating profit margin considerably to 15.9% in FY2021 and 15.0% in Q1 FY2022 (from 11.8% in FY2020), aided by higher operational efficiencies. An expectation of a gradual improvement in industrial activity, resulting in better load availability for the company, is likely to help it record a healthy revenue growth in the medium term. Further, a gradual structural shift in preference towards organised fleet operators coupled with the incremental revenues from the company's two new service offerings, the Cold Chain Express and the C2C Express, are also expected to support its growth prospects over the medium term.

TCI Express continues to have a healthy proportion of contracted business (~50% of overall revenues), which provides adequate revenue visibility, even as the fragmented nature of its business leads to stiff competition. Although the company's presence is limited to the express distribution business, it enjoys a diversified customer and segment profile, which insulates its business to an extent from a demand downturn in any particular industry. The assigned rating also favourably factors in its strong financial risk profile as characterised by a conservative capital structure, strong liquidity profile and robust return (RoCE of ~36% in FY2021) and debt coverage indicators (interest coverage ratio of 172.2 times in FY2021). Given its asset-light model, the company does not own any fleet and relies on the fleet hired from attached business vendors. This provides the company with the flexibility to manage its fleet requirements during downturns and helps retain its profitability and return indicators. The same was visible in the company's financial performance during Q1 FY2021, when despite the disruption caused by the nationwide lockdown, the company reported healthy operating profit margins. Additionally, the working capital intensity in the business continues to remain at moderate levels, which has helped the company maintain a strong liquidity profile.

TCI Express has capex plans (Rs. 80-100 crore per annum) for strengthening its infrastructure, by setting up various company-owned and operated express sorting centres. The capex is likely to be primarily funded through its expected cash accruals, thereby helping TCI Express keep its dependence on external borrowings at low levels. ICRA would continue to monitor the company's ability to manage its working capital cycle and liquidity profile, as its operations scale up further.

Key rating drivers and their description

Credit strengths

Widespread network/infrastructure and established brand strength in the express distribution business - TCI Express has an established brand strength and a strong distribution network on a pan India basis, offering last mile connectivity to its

customers. The company operates through a hub-and-spoke model, with 28 express sorting centres spread across the country acting as hubs and various distribution centres acting as spokes to optimise on costs. With air transport generating ~9-10% of its revenues, TCI Express continues to have an association with all major air carriers in the express distribution business. Its physical infrastructure is supported by a robust IT infrastructure, which enables its customers to track their shipments in real time.

Asset-light model, with dependence on attached fleet, helps in minimising idle capacity during downturns - The company does not have any fleet on its books. In the absence of any owned fleet, the business has continued to rely on ~5,000 containerised vehicles from attached business vendors and associates to meet its customer requirements. The asset-light nature of its operations helps it in saving high-fixed costs (related to fleet) in the event of business downturns, thereby helping TCI Express maintain healthy profitability margins.

Diversified customer base insulates business from demand downturn in any particular end-user industry - TCI Express has a diversified customer base, which has remained fairly stable over the years. The business caters to various industries, with revenue shares of ~10-15% each from automotive, pharmaceuticals, textiles, engineering goods and telecom sectors, among others. The business mix insulates the company from a downturn in demand in any particular industry, thereby providing healthy revenue visibility.

Healthy profitability and return indicators; strong financial risk profile - The company has a healthy financial risk profile, characterised by healthy return and profitability metrics, conservative capital structure and strong debt coverage metrics. The ROCE remains at robust levels (36% in FY2021), benefitting from the healthy profitability and asset-light nature of the business. A conservative capital structure has aided it in maintaining robust debt coverage indicators, with the company having robust credit metrics like Total Debt/OPBITDA of 0.01 time in FY2021.

Credit challenges

Profitability remains susceptible to increase in vehicle hire charges and ability to pass on variations in fuel prices - TCI Express remains exposed to a fluctuation in hire charges for market vehicles, since such rates are primarily dependent on the demand-supply position. Additionally, since the company enters into freight contracts with various customers (estimated to account for ~50% of the overall business), its ability to pass on any variation in fuel prices remains critical in helping it maintain its profitability margins.

Intense competition from organised and unorganised players, given fragmented nature of the industry - The express distribution business is highly fragmented, with a major part of the business made up by the unorganised segment. While there exists a significant opportunity for organised players to scale up their businesses, especially post GST implementation, the fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins in renewal of contracts. TCI Express has been able to mitigate this risk to an extent, benefitting from the established relationships with its customers and timely upgradation of physical and IT infrastructure. The company's established relationships have also helped the company mitigate the increase in the competitive intensity over the years on account of the entry of private equity backed logistics players.

Liquidity position: Strong

TCI Express' liquidity position remains **strong**, supported by healthy cash flows from operations, sizeable cash balances (~Rs. 84.2 crore as of March 31, 2021) and adequate buffer of Rs. 40-45 crore in working capital facilities owing to marginal utilisation. As against the available sources of funds, it has planned capex of Rs. 80-100 crore/annum towards modification and capacity expansion of its sorting centres. Its annual debt repayments remain limited to marginal vehicle loans (~Rs. 1 crore in FY2022). ICRA expects TCI Express to be able to meet its near-term commitments through internal sources of cash and available lines of credit and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on the rating could arise if an increase in working capital intensity led by an elongation in receivable cycle, or any major debt-funded capex, results in a deterioration in the company's liquidity position and debt coverage metrics (Total Debt/OPBDITA greater than 1.5 times on a sustained basis).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

TCI Express Limited (TCI Express) was formed after the demerger of the express distribution (XPS) division of Transport Corporation of India (TCI) into a separate company. The company is positioned as an express cargo logistics player with presence in both surface and air segments. TCI caters to the non-document segment (1–40kg) through road, rail and air modes and follows an extremely asset-light model, without any owned fleet. The company has a pan India network, with 28 sorting centres across the country and an attached fleet size of ~5,000 containerised vehicles and more than 800 branches. The company has a diversified customer base, which has remained fairly stable over the years. The business caters to various industries, with contribution of 10-15% each from sectors such as automotive, pharmaceuticals, textiles, engineering goods, and telecom among others.

TCI, incorporated in 1958, is one of the largest organised logistics companies in India, with a nation-wide reach. The demerger of the express distribution business of TCI was approved by its board of directors in its meeting held on October 8, 2015.

Key financial indicators (audited)

TCI Express Standalone	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	1,032.0	844.0	222.9
PAT (Rs. crore)	89.1	100.6	23.8
OPBDIT/OI (%)	11.8%	15.9%	15.0%
PAT/OI (%)	8.6%	11.9%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	-
Total Debt/OPBDIT (times)	0.0	0.0	0.0
Interest Coverage (times)	134.8	172.2	306.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 1, 2021	Nov 20, 2020	Oct 30, 2019	Sep 19, 2018
1	Commercial Paper	Short-term	25.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Commercial Paper	Yet to be placed			25.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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