August 17, 2017

TCI Express Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Commercial Paper	40.0 (enhanced from 30.0)	[ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a rating of [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs 40.0 crore[1] (enhanced from Rs. 30.0 crore) Commercial Paper programme of TCI Express Limited (TCI Express)[2]. [ICRA]A1 is the highest-credit-quality rating assigned by ICRA to short term debt instruments. Instruments rated in this category carry the lowest credit risk in the short term. Within this category, certain instruments are assigned the rating of [ICRA]A1+ to reflect their relatively stronger credit quality.

Rationale

The rating reaffirmation factors in the strong operating performance of TCI Express in FY2017, aided by the company's widespread infrastructure, integrated operations and established brand strength in the express distribution business. The company continues to have a diversified customer and segment profile, which coupled with an improvement in demand scenario in its key end user segments supported a healthy growth in revenues and profits. While the fragmented nature of the express distribution business leads to high competitive intensity in the business, TCI Express continues to have a healthy proportion of contracted business, thereby providing adequate revenue visibility over the medium term. Additionally, an expectation of pick-up in industrial activity coupled with a likely structural shift in preference for organized fleet operators as a fallout of implementation of Goods and Services Tax (GST) bodes well for the company's growth prospects over the short to medium term.

The rating assigned also factors in favourably the asset-light model followed by the company, wherein the company does not have any owned fleet on its books and relies on fleet hired from attached business vendors; the same allows the company to suitably alter its fleet requirements during downturns and maintain its profitability and return indicators. The asset light model coupled with a short working capital cycle has helped the company maintain a healthy financial risk profile, characterized by marginal debt and strong debt coverage indicators. The company has been able to maintain healthy operating margins on the back of various cost efficiency measures undertaken over the years, and its working capital intensity continues to remain at moderate levels. Going forward, its ability to manage its working capital cycle as its operations scale up further and consequently maintain a strong liquidity position would remain a key rating sensitivity.

TCI Express has moderate capex plans (Rs. 40-50 crore/annum) towards strengthening its infrastructure, by setting up various company owned express distribution centres. Although the capex is likely to be primarily funded through the company's expected cash accruals, the company's ability to maintain a healthy financial risk profile in the context of these capex plans would continue to be monitored.

---

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

Key rating drivers

Credit strengths

- **Widespread network/infrastructure and established brand strength in the express distribution business –** TCI Express Limited was formed after the de-merger of the express distribution (XPS) division of the TCI into a separate company. The company has an established brand strength in the express distribution business and enjoys access to a widespread distribution network on a pan India basis.

- **Diversified customer base insulates the business from a downturn in demand in a particular industry -** TCI Express has a diversified customer base, which has remained fairly stable over the years. The business caters to various industries, with contribution of 9-12% each from various sectors such as automotive, pharmaceuticals, textiles, electronic equipment and engineering goods etc. The diversified business mix insulates the business from a downturn in demand in a particular industry, thereby providing healthy revenue visibility for the company.

- **Asset light model, with dependence on leased/hired vehicles, helps in minimizing 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 about ~1,500 attached business vendors and associates. The company has a strong distribution network through the last mile connectivity offered by its own delivery center and associates, as well as cargo pick-up from customer locations. The asset light nature of operations helps the company in saving on fixed costs (related to fleet) in the event of business downturn, thereby helping it maintain a healthy profitability.

- **Healthy profitability and return indicators; strong financial risk profile -** The total debt outstanding on the company's books as of March 31, 2017 was only Rs. 31.6 Crore, with a bulk of the same consisting of working capital borrowings. The capital structure remains robust with the company having a gearing of 0.2 time as of March 31, 2017; the coverage indicators remain healthy with the company having a NCA/Total Debt of 133.0% and Total Debt/OPBITDA of 0.2 times in FY2017.

Credit weaknesses

- **Profitability remains susceptible to increase in vehicle hire charges as well as ability of the company to pass on the variation in fuel prices –** TCI Express remains exposed to a significant fluctuation in hire charges for market vehicles since the rates are primarily dependent on demand-supply position. Additionally, since the company enters into freight contracts with various customers, its ability to pass through any variation in fuel prices remains critical in helping it maintain its profitability margins.

- **Intense competition from organized and unorganized players given the fragmented nature of the industry –** The express distribution business is highly fragmented, with a majority of the business being catered by the unorganized segment. While there exists a significant opportunity for the organized players to scale up their businesses, especially post the implementation of GST, the fragmented nature of the industry results in high competitive intensity, thereby exerting pressure on profitability margins.

- **Maintaining financial risk profile in the context of moderate capex plans over the short to medium term -** The company plans to incur Rs 40-50 Crore of capex on an annual basis going forward towards construction of sorting centres. The management has indicated that the capex incurred would remain dependent on market conditions, and the same would be primarily funded through internal accruals. ICRA would continue to monitor the progress of the company's capex plans and its impact on the company's financial risk profile.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:
Corporate Credit Rating Methodology
ICRA's Approach for Rating Commercial Papers

About the company:
TCI Express Limited was formed post demerger of express distribution (XPS) division of Transport Corporation of India (TCI) into a separate company. The business caters to the non document segment (1kg – 40kg) through road, rail and air modes and follows an extremely asset light model, with absence of owned fleet. The demerger of the express distribution business from TCI was approved by the board of directors of TCI in its meeting held on October 8, 2015. Post the approval by the shareholders and creditors of TCI followed by no objection certificates being received from the stock exchanges and the High court of Telangana and Andhra Pradesh, the appointed date of demerger of the division from TCI was close of business hours of March 31, 2016.

TCI, incorporated in 1958, is one of the largest logistics company in India in the organised sector, with a nation-wide reach. It has diversified revenue streams and currently operates through three main divisions—Freight, Supply Chain Solutions (SCS), and TCI Seaways—besides a smaller division, Wind Power.

Key Financial Indicators

Indicator	FY2016*	FY2017
Operating Income (Rs. crore)	-	753.9
PAT (Rs. crore)	-	40.7
OBDITA/OI (%)	-	8.9%
ROCE (%)	-	5.4%
Total Debt/ TNW (times)	0.3	0.2
Total Debt/ OPBDIT (times)	-	0.5
Interest coverage (times)	-	27.4
NWC/ OI (%)	-	10.1%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital
TCI Express Limited was formed post demerger of express distribution (XPS) division of Transport Corporation of India's into a separate company (Appointed date of demerger was close of business hours on March 31, 2016)

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	**Instrument**	**Current Rating (FY2018)**			**Chronology of Rating History for the past 3 years**		
		Type	**Amount Rated (Rs. Crore)**	**Date & Rating**	**Date & Rating in FY2017**	**Date & Rating in FY2016**	**Date & Rating in FY2015**
				August 2017	**November 2016**	**-**	**-**
1	Commercial Paper	Short Term	40.0	**[ICRA]A1+**	**[ICRA]A1+**	**-**	**-**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	**Date of Issuance / Sanction**	**Coupon Rate**	**Maturity Date**	**Amount Rated (Rs. crore)**	**Current Rating and Outlook**
Commercial Paper	June 9, 2017	7.70%	Sep 7, 2017	10.0	[ICRA]A1+
Commercial Paper	July 6, 2017	7.15%	Oct 4, 2017	10.0	[ICRA]A1+
Commercial Paper	-	-	-	20.0	[ICRA]A1+

Source: TCI Express Limited

Contact Details

Analyst Contacts

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Relationship Contact
Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500