

TCI Express Limited

September 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial Paper	40.0	40.0	[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-crore¹ 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 company's continued strong operating performance, aided by its widespread infrastructure, integrated operations and established brand strength in the express distribution business. TCI Express continues to have a healthy proportion of contracted business, which provides adequate revenue visibility, even as the fragmented nature of the express distribution business leads to stiff competition in the business. Additionally, an expectation of a continued pick-up in industrial activity, coupled with a gradual structural shift in preference for organised fleet operators post the implementation of the Goods and Services Tax (GST) bodes well for the company's growth prospects over the short to medium term.

Even though its presence is limited to the express distribution business, TCI Express enjoys a diversified customer and segment profile, which insulates the business to an extent from a downturn in demand in a particular industry. The rating assigned also favourably factors in its strong financial risk profile, characterised by strong return and debt coverage indicators. Its asset-light model, wherein the company does not have any owned fleet on its books and relies on the fleet hired from attached business vendors, allows TCI Express to suitably alter its fleet requirements during downturns and retain its profitability and return indicators. Additionally, the working capital intensity in the business continues to remain at moderate levels, which has helped the company maintain a comfortable liquidity profile.

TCI Express has capex plans (Rs. 50-60 crore/annum) towards strengthening its infrastructure, by setting up various company-owned express distribution centres. The capex is likely to be primarily funded through its expected cash accruals, thereby helping TCI Express maintain a healthy financial risk profile.

¹100 lakh = 1 crore = 10 million

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

ICRA would continue to monitor the company's ability to manage its working capital cycle and liquidity profile, as its operations scale up further. ICRA also notes that the proceeds from the rated commercial paper programme are intended to be utilised for funding the working capital requirements, as per the objects of the issue. Any deviation from the above, which has the effect of exerting pressure on its asset-liability position, would be a rating sensitivity.

Key rating drivers

Credit strengths

Widespread network/infrastructure and established brand strength in the express distribution business – TCI Express has an established brand strength in the express distribution business and enjoys access to a widespread distribution network on a pan-India basis. It operates through a hub-and-spoke model, with 28 express distribution centres (sorting centres) spread across the country acting as hubs and various distribution centres acting as smaller hubs to optimise on costs. The physical infrastructure is supported by a robust IT infrastructure, which enables the customers to track their shipments in real time.

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 ~10-15% each from automotive, pharmaceuticals, textiles, engineering goods, telecom sectors among others. The business mix insulates the company from a downturn in demand in a particular industry, thereby providing healthy revenue visibility going forward.

Asset-light model, with dependence on leased/hired vehicles, 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 about ~1,500 attached business vendors and associates to meet its customer requirements. The asset-light nature of operations helps in saving on fixed costs (related to fleet) in the event of business downturns, thereby helping TCI Express maintain healthy profitability margins.

Healthy profitability and return indicators; strong financial risk profile – The ROCE of the business remains at robust levels (40.6% in FY2018), benefitting from the healthy profitability and asset-light nature of business. The company's financial risk profile remains strong, characterised by a conservative capital structure (gearing of 0.2 times as of March 31, 2018) and robust debt coverage indicators with TCI Express having a NCA/Total Debt of 127.0% and Total Debt/OPBITDA of 0.4 times in FY2018.

Credit challenges

Profitability remains susceptible to increase in vehicle hire charges and its ability 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 organised and unorganised players given the fragmented nature of the industry – The express distribution business is highly fragmented, with a major part of the business being catered by the unorganised segment. While there exists a significant opportunity for the organised players to scale up their businesses, especially post the implementation of GST, the fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins in renewal of contracts.

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

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the company

TCI Express was formed after the demerger of the express distribution (XPS) division of the Transport Corporation of India (TCI) into a separate company. The business 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 located across the country and an attached fleet size of ~4,500 containerised vehicles.

TCI, incorporated in 1958, is one of the largest logistics company in India in the organised sector, with a nation-wide reach. Post the approval by various stakeholders and the High Court of Telangana and Andhra Pradesh, the express distribution business was demerged with March 31, 2016 being set as the appointed date.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	750.3	885.2
PAT (Rs. crore)	37.5	58.4
OPBDIT/OI (%)	8.3%	10.3%
RoCE (%)	34.7%	40.6%
Total Debt/TNW (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.5	0.4
Interest Coverage (times)	25.4	24.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Commercial Paper	Short Term	40.0	25.0	Sep 2018 [ICRA]A1+	Aug 2017 [ICRA]A1+	Nov 2016 [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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE586V14167	Commercial Paper	July 2018	-	Sep 2018	10.0	[ICRA]A1+
INE586V14175	Commercial Paper	July 2018	-	Sep 2018	15.0	[ICRA]A1+
-	Commercial Paper	Not placed	-	-	15.0	[ICRA]A1+

Source: TCI Express Limited

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