October 30, 2019

TCI Express Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	40.0	25.0	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the strong operational performance of TCI Express Limited (TCI Express), with the company continuing to benefit from its widespread infrastructure, integrated nature of operations and established brand strength in the express distribution business. 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 its business leads to stiff competition. Although the current subdued economic environment is likely to moderate the company's revenue growth prospects in the near-term, 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. A gradual structural shift in preference for organised fleet operators post the implementation of the Goods and Services Tax (GST) also bodes well for the company's growth prospects.

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 44.5% in FY2019) and debt coverage indicators (Interest coverage ratio of 31.5 times in FY2019). 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, provides TCI Express with the flexibility to manage its fleet requirements during downturns and helps 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 strong liquidity profile.

TCI Express has capex plans (Rs. 70-80 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. 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 and a strong distribution network on a pan India basis, offering last mile connectivity to its customer. It 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 smaller hubs to optimise on costs. With air transport generating ~9-10% of its revenues, TCI Express continues to have an association with all major 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 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 ~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 the business from a demand downturn in any particular 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 ~10-17% 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, going forward.

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 (44.5% in FY2019), benefitting from the healthy profitability and asset-light nature of the business. A conservative capital structure (gearing of 0.04 time as of March 31, 2019) has aided it in maintaining robust debt coverage indicators, with the company having a NCA/Total Debt of 687.4% and Total Debt/OPBITDA of 0.1 time in FY2019.

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 the 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.

Liquidity position: Strong

TCI Express's liquidity position is **strong**, characterised by an expectation of stable retained cash flows of ~Rs. 60-80 crore annually, low utilisation of working capital limits (average utilisation of ~10-20%), and moderate cash and bank balances (~Rs. 15-20 crore). The company's annual debt repayments remain limited to marginal vehicle loans (Rs. 1.2 crore in FY2020), while it has a planned capex of ~Rs. 70-80 crore/annum (capex plans remain flexible and may be revised to lower levels in keeping with the demand scenario), the expected cash accruals are likely to limit any incremental dependence on external borrowings.

Rating sensitivities

Negative triggers: Negative pressure on the rating could arise if an increase in working capital intensity led by an elongation in receivable cycle, results in a deterioration in the company's liquidity position and debt coverage metrices (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 was formed after the demerger of the express distribution (XPS) division of 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 across the country and an attached fleet size of ~5,000 containerised vehicles and more than 750 branches.

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. After the approval from TCI's shareholders and creditors, followed by no objection certificates received from the stock exchanges and the High Court of Telangana and Andhra Pradesh, the appointed date of the demerger was set at the close of business hours on March 31, 2016.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	885.2	1,023.8
PAT (Rs. crore)	58.4	72.8
OPBDIT/OI (%)	10.3%	11.6%
RoCE (%)	40.6%	44.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.4
Total Debt/OPBDIT (times)	0.4	0.1
Interest Coverage (times)	24.3	31.5
DSCR	15.8	18.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 30-Oct-2019	Date & Rating in FY2019 19-Sep-2018	Date & Rating in FY2018 17-Aug-2017	Date & Rating in FY2017 24-Nov-2016
1	Commercial Paper	Short Term	25.0	**0.0**	**[ICRA]A1+**	**[ICRA]A1+**	**[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 c

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	Yet to be placed			25.0	[ICRA]A1+

Source: TCI Express Limited

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

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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.

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