

September 26, 2023

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-I

Rationale

The rating reaffirmation continues to factor in the expectation of strong operational performance of TCI Express Limited (TCI Express/company), benefitting from its established brand strength, geographic diversification, integrated operations and continued focus on investments in infrastructure and technology in the express distribution business. The company reported revenues of Rs. 1,241.0 crore in FY2023 (YoY growth of 15%) and Rs. 306.4 crore in Q1 FY2024 (YoY growth of 5%), aided by healthy growth in economic activities and consequently higher demand levels. The operating profit margin marginally declined to 15.7% in FY2023 against 16.2% in FY2022 owing to the inflationary pressures. An expectation of a continued improvement in industrial activity, resulting in better load availability, is likely to help it record a healthy revenue growth over the medium term. The margins are also likely to improve on account of prices hike by ~1.5-2% in FY2024, healthy fill factor and cost-control initiatives through automation in sorting centres. Further, a gradual structural shift in preference towards organised fleet operators especially post the goods and service tax (GST), E-way bill, coupled with incremental revenues from the company's new services, the Rail Express and C2C Express, are also expected to support its growth prospects. The company has also incorporated a 100% owned subsidiary in Singapore, in February 2023, to grow its international air express business.

TCI Express continues to have a healthy proportion of contracted business (~75% 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 diversified customer and segment profiles, which insulate its business to an extent from a demand downturn in any industry. The assigned rating also favourably factors in its strong financial risk profile, characterised by a conservative capital structure, negligible debt, and robust debt coverage indicators (interest coverage ratio of 107.4 times in FY2023). 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 any downturns and helps retain its profitability and return indicators. Additionally, the working capital intensity in the business continues to be at moderate levels, which has helped the company maintain a strong liquidity profile.

TCI Express has capex plans of Rs. 70-100 crore per annum over the next four years towards setting up its own seven to eight sorting centres, investment in automation and technology, and network expansion by addition of new branches. The capex is likely to be primarily funded through its internal 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. It has been expanding its geographical reach over the past few years and set up 35 new branches in FY2023. The company has also bought land at five cities to set up its owned sorting centres with their construction expected to be completed over the next one to two years. The company further benefits from the established relationships with its customers and truck vendors and timely upgradation of physical and 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 any downturns - The company does not have any fleet on its books. In the absence of any owned fleet, the business relies 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 save high fixed costs (related to fleet) in the event of any business downturns, thereby helping TCI Express maintain healthy profitability margins.

Diversified customer base insulates business from downturns in any end-user industry – TCI Express has a diversified customer base, which has remained fairly stable over the years with the top-10 customers amounting to less than 10% of the revenue during FY2023. The business also caters to various industries, with revenue shares of ~9-16% each from pharmaceuticals, automotive, machinery, engineering and telecom, and textiles. The business mix insulates the company from any downturns in demand in any 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 (34% in FY2023), 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 Total Debt/OPBITDA of 0.04 times in FY2023.

Credit challenges

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

Intense competition from organised and unorganised players given fragmented nature of 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 mitigated this risk to an extent, benefitting from the established long-term relationships with its customers and timely upgradation of the physical and IT infrastructure.

Liquidity position: Strong

TCI Express' liquidity position remains **strong**, supported by healthy cash flows from operations, sizeable cash balances (~Rs. 49 crore as on June 30, 2023) and adequate buffer of Rs. 40.0 crore in working capital facilities owing to marginal utilisation. While it does not have any long-term borrowings on its books, it has planned capex of Rs. 70-100 crore per annum towards setting up and automation of its sorting centres. ICRA expects TCI Express to be able to meet its capex and other near-term commitments through internal accruals and existing cash balance and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – 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	For arriving at the ratings, ICRA has considered the consolidated financials of TCI Express, details of which are enlisted in Annexure II

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 mainly into surface transportation. 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 900 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 9-16% each from sectors such as automotive, pharmaceuticals, textiles, engineering goods and telecom, machinery, 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 (Consolidated)	FY2022	FY2023	Q1 FY2024 (Limited audit)
Operating income	1,081.5	1,241.0	306.4
PAT	128.8	139.3	32.3
OPBDIT/OI	16.2%	15.7%	15.6%
PAT/OI	11.9%	11.2%	10.6%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	-
Total debt/OPBDIT (times)	0.0	0.0	-
Interest coverage (times)	192.0	107.4	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; balance sheet figures not available for Q1; standalone nos. are shown for FY2022 and consolidated nos. from FY2023 onwards, as the subsidiary was incorporated in February 2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 26, 2023	Sep 14, 2022	Oct 01, 2021	Nov 20, 2020
1 Commercial Paper	Short term	25.0	-	[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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	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 II: List of entities considered for consolidated analysis

Company Name	TCI Express ownership	Consolidation Approach
TCI Express Pte. Ltd	100%	Full consolidation

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About ICRA Limited:

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