September 12, 2024

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 steady operational performance of TCI Express Limited (TCI Express), benefitting from its established brand strength, geographical diversification, integrated operations and continued focus on investments in infrastructure and technology in the express distribution business. The company reported revenues of ~Rs. 1,253.8 crore in FY2024 and ~Rs. 293 crore in Q1 FY2025, constrained to an extent by weak load availability. Even as the operating profit margin has moderated over the past few quarters, impacted by inflationary pressure, it continues to remain at healthy levels. Expectation of improvement in industrial activity, resulting in better load availability for the company, is likely to help it record a moderate revenue growth over the medium term. The margins are also likely to remain strong, aided by price hike, healthy utilisation levels and better operational efficiencies. Further, a gradual structural shift towards organised fleet operators, especially post the implementation of goods and service tax (GST), e-way bill and national logistics policy (NLP), coupled with incremental revenues from the company's new service offerings (Rail Express and 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 (~70% 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 demand downturn in any industry. The rating also favourably factors in its strong financial risk profile, characterised by a conservative capital structure, strong liquidity profile, robust return indicator (RoCE of ~28% in FY2024) and debt coverage indicators (interest coverage ratio of ~127 times in FY2024). 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 downturn and helps retain its profitability and return indicators. Additionally, the working capital intensity in the business continues to be at moderate levels, which helped the company maintain a strong liquidity profile.

TCI Express has capex plans of Rs. 70-100 crore per annum for the next four years for strengthening its infrastructure along with automating and expanding the company-owned/operated sorting centres. The capex is likely to be primarily funded through its expected cash accruals, 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

Wide 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 had 970+ branches at the end of FY2024. The company has 28 sorting centres, out of which six are owned. The company further benefits from the established relationships with its customers and truck vendors and timely upgradation of physical and IT infrastructure, which enable its customers to track their shipments in real time.

Asset-light model with dependence on attached fleet helps in minimising idle capacity during any downturn – The company does not have any fleet on its books. In the absence of any owned fleet, the business relies on 5,500+ containerised vehicles from attached business vendors and associates to meet its customers' requirements. The asset light nature of its operations helps it save high fixed costs (related to fleet) in the event of any business downturn, helping TCI Express maintain healthy profit margins.

Diversified customer base insulates business from downturn in any end-user industry – TCI Express has a diversified customer base, which has remained stable over the years with the top-10 customers accounting for less than 10% of the revenue in FY2024. The business also caters to various industries, with revenue shares of 9-16% each from pharmaceuticals, automotive, machinery, engineering, electronics, textile and lifestyle products. The business mix insulates the company from any downturn in demand in any industry, providing healthy revenue visibility.

Healthy profitability and return indicators; strong financial risk profile – The company has a sound financial risk profile, characterised by healthy return and profitability metrics, a conservative capital structure and strong debt coverage metrics. The RoCE remains at robust levels (27.7% in FY2024), 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 0.06 times in FY2024.

Credit challenges

Profitability susceptible to increase in vehicle hire charges and ability to pass on variation in fuel prices – TCI Express remains exposed to fluctuation in hire charges for market vehicles. Rates are primarily dependent on the demand-supply position. As the company enters freight contracts with various customers (estimated to account for ~70% of the overall business), its ability to pass on any variation in fuel prices remains critical in maintaining its profit margins.

Intense competition from organised and unorganised players, given fragmented nature of industry – The express distribution business is highly fragmented as the unorganised segment accounts for the major part of the business. 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, exerting pressure on the profit margin during 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 physical and IT infrastructure.

Liquidity position: Strong

TCI Express' liquidity position remains strong on expectation of healthy cash flow from operations, sizeable cash balances (~Rs. 101 crore as on March 31, 2024) and adequate buffer of Rs. 40.0 crore in working capital facilities owing to marginal utilisation. It does not have any long-term borrowing on its books. It has planned capex of Rs. 70-100 crore/annum towards automation and capacity expansion of its sorting centres against the available sources of funds. ICRA expects TCI Express to be able to meet its capex and other near-term commitments through internal accruals, cash/cash equivalents and available lines of credit and yet be left with sufficient cash surplus.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Pressure on the rating could arise if an increase in the working capital intensity owing to an elongation in the receivable cycle, or any major debt-funded capex, results in a deterioration in the company's liquidity position and debt coverage metrics. Specific metric for rating downgrade includes total Debt/OPBDITA of more 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 rating, 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 an express cargo logistics player, which mainly does surface transportation. TCI caters to the non-document segment (1-40 kg) 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 more than 970 branches, 28 sorting centres and an attached fleet size of 5,500+ containerised vehicles. 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 pharmaceuticals, automotive, machinery, engineering, electronics, textile and lifestyle products.

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

TCI Express (Consolidated)	FY2023	FY2024	Q1 FY2025*
Operating income	1,241.0	1,253.8	293.0
PAT	139.3	131.7	23.1
OPBDIT/OI	15.7%	14.9%	12.1%
PAT/OI	11.2%	10.5%	7.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	-
Total debt/OPBDIT (times)	0.0	0.1	-
Interest coverage (times)	107.4	127.4	-

*Source: Company, ICRA Research; * Limited review; All ratios as per ICRA's calculations; Amount in Rs. crore, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				12-Sep-24	26-Sep-23	14-Sep-22	01-Oct-21
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

Source: Company annual report

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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.

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.

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