

Future Supply Chain Solutions Ltd

Incorporated in 2006, Future Supply Chain Solutions Ltd (FSCSL) is one of the largest third-party logistics service providers in India. FSCSL offers services in three key areas i.e. (1) Contract Logistics (warehousing, distribution and value-added service), (2) Express Logistics (point-to-point, less-than truck-load, time definite transportation services), and (3) Temperature Controlled Logistics (cold-chain warehousing, transportation solutions and distribution of perishable products).

Positives: (a) Diverse customer base across sectors like retail, fashion & apparel, automotive & engineering, food & beverage, FMCG, e-commerce, healthcare, electronics & technology, home & furniture and ATMs; (b) Improvement in operational efficiencies, technological implementation and process enhancements; (c) Asset-light model leading to higher operating leverage; and (d) Experienced management with logistics and retail sector specific knowledge.

Investment concerns: (a) For 1HFY2018, FSCSL reported revenue of ₹ 408cr, out of which 70% was from Future Group; (b) The company's external business reported ~2% negative CAGR over FY2015-17.

Outlook & Valuation: In terms of valuations, the pre-issue P/E works out to 39.9x its 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to its peers like Mahindra Logistics. However, Mahindra Logistics has lower promoter group business (internal business), which is ~54% v/s. ~70% of FSCSL. Further, Mahindra Logistics had reported non-promoter revenue CAGR of ~46% v/s. de-growth of FSCSL over FY15-17.

Despite the above favorable factors and lower valuations compared to Mahindra Logistics, we however, believe that all the positives are fully factored in the company's current valuations, which does not provide any further upside for investors. **Hence, we recommend Neutral rating on the issue.**

Key Financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
Net Sales	408	520	561	357
% chg	-	27.4	7.9	-
Net Profit	25	29	46	33
% chg	-	18.6	55.5	-
OPM (%)	15.6	13.5	13.2	15.7
EPS (Rs)	6.2	7.3	11.4	8.3
P/E (x)	107.2	90.4	58.1	-
P/BV (x)	1.2	1.1	0.9	-
RoE (%)	11.4	11.9	15.6	-
RoCE (%)	15.7	15.0	14.8	-
EV/Sales (x)	0.8	0.7	0.5	-
EV/EBITDA (x)	5.1	4.9	4.0	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: Dec 6, 2017

Issue Close: Dec 8, 2017

Issue Details

Face Value: ₹ 10

Present Eq. Paid up Capital: ₹ 40.1cr

Offer for Sale: 0.98cr Shares

Fresh issue: Nil

Post Eq. Paid up Capital: ₹ 40.1cr

Issue size (amount): ₹ 646cr - ₹ 650cr

Price Band: ₹ 660-664

Lot Size: 22 shares and in multiple thereafter

Post-issue implied mkt. cap: ₹ 2,644cr - ₹ 2,660cr

Promoters holding Pre-Issue: 57.4%

Promoters holding Post-Issue: 52.5%

* Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	52.5%
Others	47.5%

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Company background

Incorporated in 2006, Future Supply Chain Solutions Ltd (FSCSL) is one of the largest third-party logistics service providers in India. The company's services include automated and IT-enabled warehousing, distribution and other logistic solutions.

They offer contract logistics like warehousing and distribution services as well as other value-added services including kitting and bundling, unit cartonisation and packaging solutions, express logistics such as point-to-point, less-than truck-load & time-definite transportation services and temperature-controlled logistics comprising of cold-chain warehousing, transportation solutions, and long-haul distribution services for perishable products.

They serve customers in various sectors including retail, fashion & apparel, automotive & engineering, food & beverages, fast-moving consumer goods, e-commerce, healthcare, electronics & technology, home & furniture and ATMs.

Issue details

FSCSL is raising ₹646-650cr through offer for sale of equity shares in the price band of ₹660-664. Public offer of up to 9,784,570 equity shares of face value ₹10 each through an offer for sale of up to 7,827,656 equity shares by Griffin Partners Limited and up to 1,956,914 equity shares by Future Enterprises Limited (Promoter Selling Shareholder).

Exhibit 1: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	22,972,831	57.4%	21,015,917	52.5%
Others	17,083,407	42.6%	19,040,321	47.5%
	40,056,238	100.0%	40,056,238	100.0%

Source: Source: RHP, Note: Calculated on upper price band

Objects of the offer

The objects of the Offer for the Company are to:

- Achieve the benefits of listing the equity shares on the Stock Exchanges
- Sale of equity shares by the selling shareholders
- Enhance stability and brand image and provide liquidity to its existing shareholders

Investment Rationale

Diverse customer base across sectors

FSCSL serves diverse sectors like retail, fashion & apparel, automotive & engineering, food & beverages, FMCG, e-commerce, healthcare, electronics & technology, home & furniture and ATMs. FSCSL has a diversified customer base in each of the sectors it serves, including Indian corporate groups and multinational companies apart from the Promoter and certain Group Companies.

Exhibit 2: Revenue break-up in Fiscal 2017

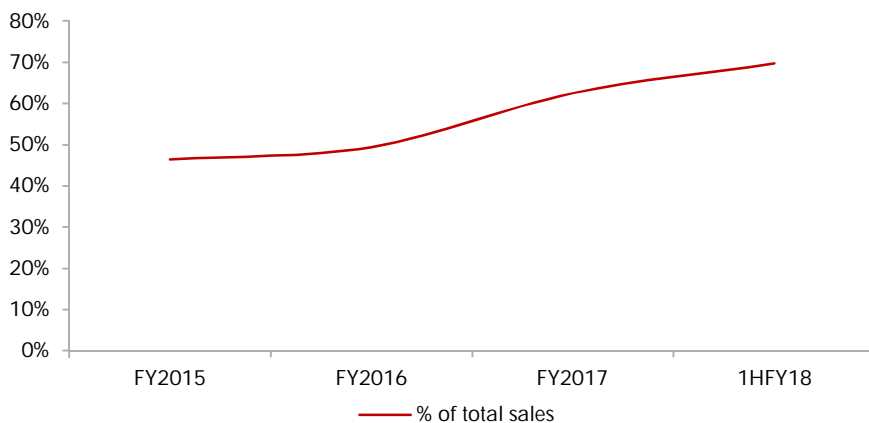
Sector	Percentage of revenue from operations (%)
Fashion & Apparel	23.6
Automotive & Engineering	22.3
Food & Beverage	15.3
FMCG	7.3
E-Commerce	6.7
Healthcare	6.1
Electronics & Technology	6.0
Home & Furniture	5.6
ATMs	4.3
Others	2.7
Total	100

Source: Company, Angel Research

Longstanding relationship with Future Group Entities

The Future Group Entities are key customers of FSCSL and provide significant scale in operations. The scale of logistics services for the Future Group Entities enables FSCSL to capture economies of scale and drives automation and standardization of processes to optimize the service offerings, thereby, further strengthening the company's relationship with these entities.

Exhibit 3: Revenue contribution by Promoter & Group Companies



Source: Company, Angel Research

Experienced management with logistics and retail sector specific knowledge

The management team of FSCSL is experienced in the Indian logistics and retail industry. The quality of the company's management team has been critical in achieving business results. All members of the senior management have substantial experience. The company's chairman, Rakesh Biyani, has over 25 years of experience in the retail, fashion, supply chain and logistics sectors. Further, Managing Director and Chief Executive Officer, Mayur Toshniwal, has around 25 years of experience in the fast moving consumer goods and retail sector. Experience in these industries is the key to drive business growth and provides thought leadership in the supply chain space on making operations more efficient and productive, including the use of technology.

Outlook and Valuation

In terms of valuations, the pre-issue P/E works out to 39.9x its 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to its peers like Mahindra Logistics. However, Mahindra Logistics has lower promoter group business (internal business), which is ~54% v/s. ~70% of FSCSL. Further, Mahindra Logistics had reported non-promoter revenue CAGR of ~46% v/s. de-growth of FSCSL over FY15-17.

Despite the above favorable factors and lower valuations compared to Mahindra Logistics, we however, believe that all the positives are fully factored in the company's current valuations, which does not provide any further upside for investors. **Hence, we recommend Neutral rating on the issue.**

Key Risks

- Slowdown in the parent's business and overall economy could impact the company's earnings
- Consolidation by mid-sized players in the sector

Income Statement

Y/E March (Cr)	FY2015	FY2016	FY2017	1HFY18
Total operating income	408	520	561	357
% chg	-	27.4	7.9	-
Total Expenditure	344	450	487	301
Personnel	44	54	57	33
Others Expenses	300	396	430	268
EBITDA	64	70	74	56
% chg	-	9.9	6.2	-
(% of Net Sales)	15.6	13.5	13.2	15.7
Depreciation & Amortization	20	21	19	10
EBIT	44	49	55	46
% chg	-	11.6	11.9	-
(% of Net Sales)	10.8	9.5	9.8	12.9
Interest & other Charges	10	13	13	4
Other Income	3	9	16	8
(% of PBT)	7.5	19.3	27.2	15.8
Share in profit of Associates	-	-	-	-
Recurring PBT	37	45	58	49
% chg	-	22.0	30.5	-
Tax	12	15	12	16
(% of PBT)	32.6	34.0	21.4	32.6
PAT (reported)	25	29	46	33
Extraordinary Items	(0)	-	-	-
ADJ. PAT	25	29	46	33
% chg	-	18.6	55.5	-
(% of Net Sales)	6.1	5.7	8.2	9.3
Basic EPS (Rs)	6.2	7.3	11.4	8.3
Fully Diluted EPS (Rs)	6.2	7.3	11.4	8.3
% chg	-	18.6	55.5	-

Source: RHP, SH - Share Holder

Exhibit 4: Balance Sheet

Y/E March (Cr)	FY2015	FY2016	FY2017	1HFY18
SOURCES OF FUNDS				
Equity Share Capital	39	39	39	39
Reserves & Surplus	179	208	254	287
Shareholders Funds	218	247	293	326
Minority Interest	-	-	-	-
Total Loans	63	80	81	80
Deferred Tax Liability	10	13	11	11
Total Liabilities	291	341	385	417
APPLICATION OF FUNDS				
Net Block	130	138	130	208
Capital Work-in-Progress	21	2	70	0
Investments	0	0	0	10
Current Assets	237	343	310	357
Sundry Debtors	182	221	217	250
Cash	3	2	47	64
Loans & Advances	30	86	23	28
Other Assets	23	34	24	14
Current liabilities	98	145	126	159
Net Current Assets	139	199	184	198
Deferred Tax Asset	1	2	1	-
Total Assets	291	341	385	417

Source: RHP

Exhibit 5: Cash Flow Statement

Y/E March (Cr)	FY2015	FY2016	FY2017	1HFY18
Profit before tax	37	45	58	49
Depreciation	20	21	19	10
Change in Working Capital	(16)	(74)	31	(3)
Interest / Dividend (Net)	8	5	(2)	4
Direct taxes paid	(5)	(13)	(13)	(15)
Others	1	1	0	(5)
Cash Flow from Operations	44	(15)	93	40
(Inc.)/ Dec. in Fixed Assets	(20)	(11)	(78)	(25)
(Inc.)/ Dec. in Investments	2	8	14	3
Cash Flow from Investing	(18)	(3)	(64)	(22)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	(11)	31	29	3
Interest / Dividend (Net)	(10)	(13)	(13)	(4)
Others	(5)	0	0	0
Cash Flow from Financing	(26)	17	17	(1)
Inc./(Dec.) in Cash	(0)	(1)	45	17
Opening Cash balances	2	2	1	47
Closing Cash balances	2	1	47	64

Source: Company, Angel Research

Exhibit 6: Key Ratios

Y/E March	FY2015	FY2016	FY2017
Valuation Ratio (x)			
P/E (on FDEPS)	107.2	90.4	58.1
P/CEPS	60.2	53.1	41.0
P/BV	1.2	1.1	0.9
EV/Sales	0.8	0.7	0.5
EV/EBITDA	5.1	4.9	4.0
EV / Total Assets	1.1	1.0	0.8
Per Share Data (Rs)			
EPS (Basic)	6.2	7.3	11.4
EPS (fully diluted)	6.2	7.3	11.4
Cash EPS	11.0	12.5	16.2
DPS	0.0	0.0	0.0
Book Value	543.7	617.2	731.0
Returns (%)			
ROCE	15.7	15.0	14.8
Angel ROIC (Pre-tax)	15.9	15.1	16.9
ROE	11.4	11.9	15.6
Turnover ratios (x)			
Asset Turnover (Gross Block)	2.7	3.3	3.3
Receivables (days)	163	155	141
Payables (days)	73	76	64
Working capital cycle (ex-cash) (days)	90	79	77

Source: Company, Angel Research

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