

**FUTURE SUPPLY CHAIN SOLUTIONS LIMITED**

**IPO Note  
(CAUTIOUS)**

**Analyst:**

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**5 December 2017**

# IPO details

Key Data	
Issue Opens	6-Nov-17
Issue Closes	8-Nov-17
Equity Shares Offered (in mn.)	9.78
QIB	Up to 50%
NIB	Min 35%
Retail	Min 15%
Face Value (₹)	10
Price Band (₹)	660-664
Max. Issue Size (₹ mn)	6,497
Lot Size (Eq. Shares)	22 and multiple thereof

Valuation	@ ₹660 per share	@ ₹664 per share
Market Cap (₹ mn)	26,437	26,597
Net Debt (₹ mn)	155	155
Enterprise Value (₹ mn)	26,592	26,753
EV/ Sales	4.7	4.8
EV/ EBIDTA	35.8	36.0
P/B	8.1	8.2
P/E	57.8	58.1

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue <sup>^</sup>	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	22.97	57.35%	85.8	32.93%
Public	17.08	42.65%	0.9	42.65%
Other				
Offer for Sale			9.78	24.42%
Fresh Issue				
Total	40.05	100.00%	40.05	100.0%

## Object of Offer for sale

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges
- To carry out the sale of up to 57,84,570 Equity Shares by the Selling Shareholders.

## Recommendation

- The third party logistics player has a strong presence in Contract logistics segment through 42 distribution centres across India, covering approximately 3.84 million square feet of warehouse space. Around 70% of the revenue is earned from and concentrated to Future Group companies however; it also ensures predictable and stable revenue from this source in the highly competitive industry. Also, the business scalability with diverse clientele and the extension of 'Infrastructure' status to 'Logistics' are positive factors for the business in future.
- However, on valuation front, the asking multiple of 58x of FY17 earnings is on higher side compared with other listed logistics players. Even though the company fundamentals and business prospects remain strong, we are **CAUTIOUS** on the issue and recommend only high risk investors to apply for the issue.

# One of India's largest organized third party logistics operator

- ❑ Future Supply Chain (FSL) is one of India's largest organised third-party logistics service operators. FSL Offers automated and IT-enabled warehousing, distribution and other logistics solutions to a wide range of customers. FSL's service offerings, warehousing infrastructure, pan-India distribution network, "hub-and-spoke" transportation model and automated technology systems supports its competitive market position.
- ❑ FSL's customers operate in various sectors across India, including retail, fashion and apparel, automotive and engineering, food and beverage, fast-moving consumer goods ("FMCG"), e-commerce, healthcare, electronics and technology, home and furniture and ATMs.
- ❑ **FSL offers its customers services in three key areas:**
  - Contract Logistics: warehousing, distribution and other value-added services;
  - Express Logistics: point-to-point, less-than truck-load, time-definite transportation services; and
  - Temperature-Controlled Logistics: cold-chain warehousing, transportation solutions and distribution of perishable products.
- ❑ As of September 30, 2017, FSL runs its contract logistics operations through 42 distribution centres across India, covering approximately 3.84 million square feet of warehouse space and also operate 2 distribution centres of its customers, covering approximately 0.37 million square feet of warehouse space. According to the A&M Report, its distribution centre at the Multi-modal International Hub Airport at Nagpur ("MIHAN") is one of the largest and most highly automated distribution centres in India.
- ❑ FSL also utilises a "hub-and-spoke" distribution model comprising 14 hubs and 106 branches across India (including franchisees and 12 of which are co-located on the same premises as its hubs), covering 11,235 pin codes across 29 states and 5 union territories as of September 30, 2017. Further, during September 2017, FSL operated approximately 687 containerised vehicles, including 257 GPS-enabled vehicles of which 144 are refrigerated (reefer) trucks that are owned by FSL. It also operates 9,616 pallets as a part of its temperature-controlled logistics services.
- ❑ FSL has adopted technology and processes throughout its offerings, including (i) a warehouse management system to track, process and manage inventory, (ii) a sortation system to allow picking of orders with accuracy, (iii) integration with customers' systems for automated inventory replenishment, (iv) GPS-enabled trucks that provide real-time visibility of shipments and (v) a mobile portal to allow its customers real-time visibility into their supply chain.
- ❑ The third party logistics player has a strong presence in Contract logistics segment through 42 distribution centres across India, covering approximately 3.84 million square feet of warehouse space. Around 70% of the revenue is earned from and concentrated to Future Group companies however; it also ensures predictable and stable revenue from this source in the highly competitive industry. Also, the business scalability with diverse clientele and the extension of 'Infrastructure' status to 'Logistics' are positive factors for the business in future.
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Source: Red Herring Prospectus, Destimoney research

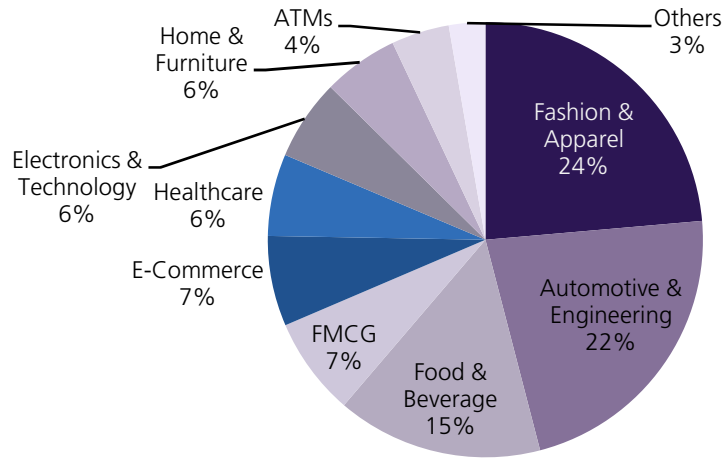
# Strengths

- ❑ **One of the largest service providers with an extensive network of facilities in a fast-growing third-party logistics market:** One of India's largest organised third-party logistics operators, according to the A&M Report. According to the A&M Report, the Indian third-party logistics market has grown at a CAGR of approximately 12% between Fiscal 2012 and Fiscal 2017.
- ❑ **Comprehensive solution for supply chain requirements:** FSL's supply chain provides a comprehensive solution for third-party logistics services through contract logistics, express logistics and temperature-controlled logistics. It also provides end-to-end customised logistics and supply chain solutions that it creates based on its customers' requirements.
- ❑ **Diverse customer base across many sectors:** FSL's customer base spans many sectors, including retail, fashion and apparel, automotive and engineering, food and beverage, FMCG, e-commerce, healthcare, electronics and technology, home and furniture and ATMs. It has a diversified customer base in each of the sectors it serves, including Indian corporate groups and multinational companies.
- ❑ **At the forefront in introducing new standards of technology and automation in the logistics industry in India:** FSL's adoption of technology and automated processes differentiates it within the supply-chain management industry in India. FSL has made investments to implement automated technology and processes in order to increase capacity and operating efficiency, thereby improving its profitability and allowing it to customise services to suit its own requirements and those of its customers.
- ❑ **Longstanding relationship with Future Entities:** The Future Entities are its key customers and for whom it has devoted significant scale in its operations. The scale of its logistics services for the Future Entities enables it to capture economies of scale and drives automation and standardisation of processes to optimise its service offerings, thereby further strengthening its relationship with these entities. Its revenue attributable to its Promoter and certain Group Companies for the six months ended September 30, 2017 and Fiscals 2017, 2016 and 2015 was ₹2,490.00 million, ₹3,504.69 million, ₹2,573.90 million and ₹1,895.15 million, respectively, which accounted for 69.7%, 62.5%, 49.5% and 46.5%, respectively, of its revenue from operations for such periods.
- ❑ **Experienced management team with logistics and retail sector-specific knowledge:** It has a management team with experience in the Indian logistics and retail industry. The quality of its management team has been critical in achieving its business results. FSL's chairman, Rakesh Biyani, has over 25 years of experience in the retail, fashion, supply chain and logistics sectors.

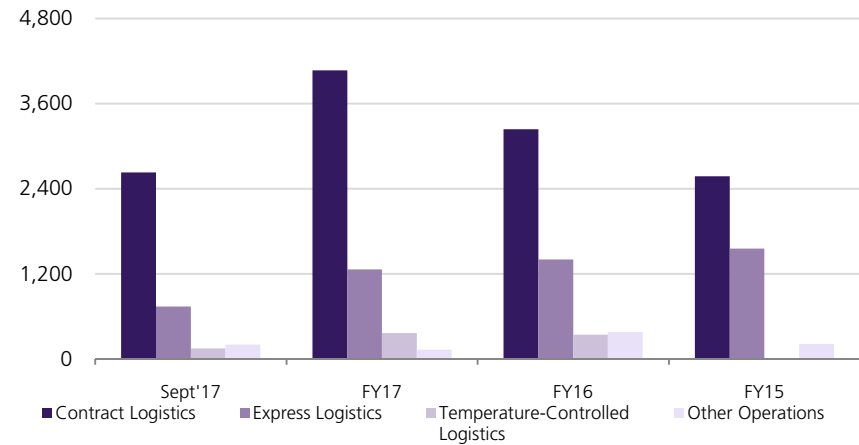
Source: Red Herring Prospectus, Destimoney research

# Strengths

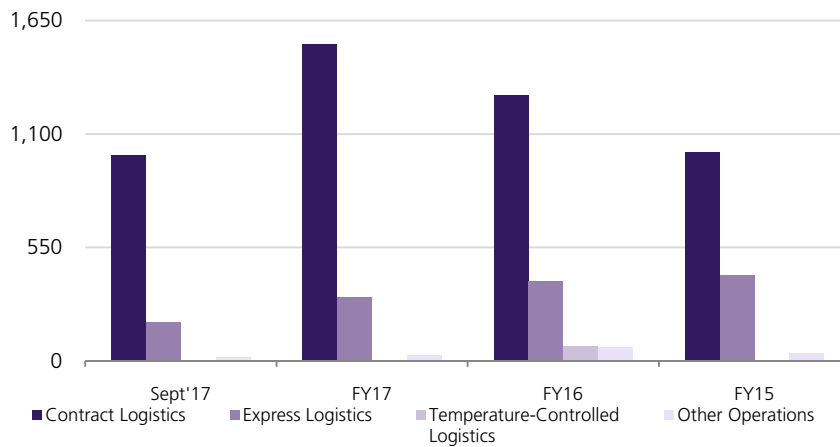
Percentage of revenue from operations (%)



Revenue from operations

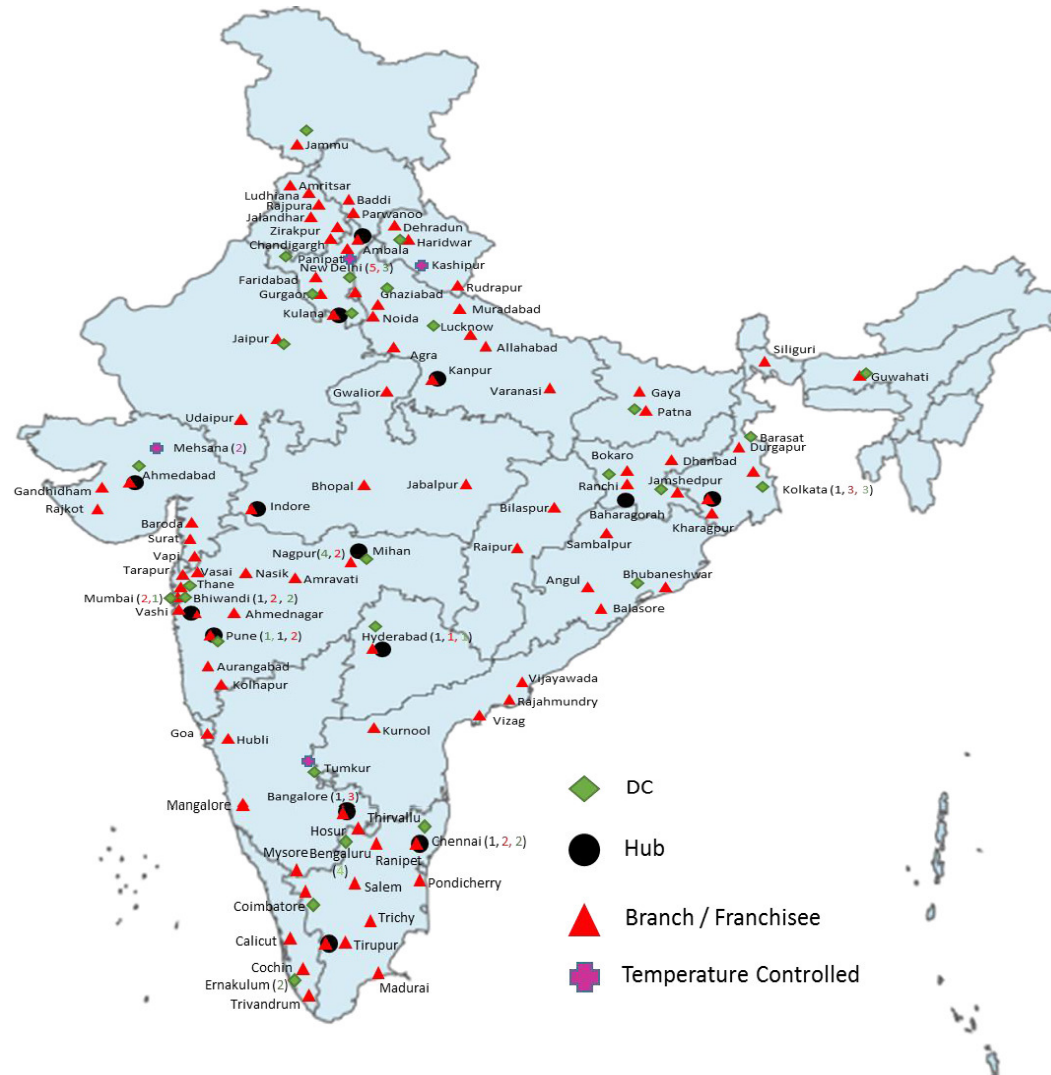


Gross profit from operations



Source: Red Herring Prospectus, Destimoney research

# Network of distribution centres, hubs and branches and temperature-controlled warehousing facilities



Source: Red Herring Prospectus, Destimoney research

## Details regarding certain distribution centres

	Kulana, Haryana	Burdwan, West Bengal	West Bhiwandi, Maharashtra (K4)	Soukya Road, Bengaluru
Size	304,614 sq. ft.	Bengal	Maharashtra (K4)	Bengaluru
Storage Capacity	81,062 bins and 12,714 pallet positions	85,344 bins and 2,000 pallet positions	37,520 bins and 16,730 pallet positions	83,412 bins and 2,128 pallet positions
Technologies Used	WMS, SAP, TMS, VMS, Oracle and Uniware	WMS, SAP, TMS, VMS	WMS	WMS, SAP, TMS
Other Key Features	Built-to-suit with 12 meter height and ample parking. Location near major highways and the main consumption hubs of northern India	Built-to-suit with 8 meter height and ample parking. Located on National Highway-2 and serves as main distribution location for east and northeast sector	Multi-customer facility	Located within prime warehouse area with ample parking. Located in between two major highways and easily accessible to the main consumption hubs of southern India, including short delivery turnaround time for stores in Bengaluru

Source: Red Herring Prospectus, Destimoney research

## Future road ahead

- ❑ **Capitalise on the growth of the third-party logistics industry in India:** According to the A&M Report, the third-party logistics market in India is expected to continue to grow in line with its historical trajectory, due to strong demand and supply-side drivers, such as the expected growth in the Indian economy, increasing urbanisation, increased consumerism due to higher per capita incomes, favourable changes, incentives from the government for infrastructure investment and higher levels of outsourcing of logistics activities. This indicates market growth potential for established third-party logistics service providers in India such as **FSL**.
- ❑ **Target growth by identifying new customers, increasing the share of existing customers' third-party logistics spending and leveraging existing relationships:** FSL has implemented sales and marketing strategies under each of its key service areas to ensure a continuous flow of business. FSL is also able to target a large customer base due to its experience of dealing with customers across multiple sectors, which provides it with a significant competitive advantage. Apart from expanding its reach to new customers, It aims to increase its revenues and margins by expanding the range of services it offers to existing customers. Furthermore, the size, scale and operational capacities of the Future Entities has enabled them to develop a network of relationships with vendors.
- ❑ **Expand addressable market through customised and new service offerings:** FSL has recently set up an Integrated Food Distribution Centre ("IFDC") in Kolkata, which caters to multiple formats and categories for the food industry, including cold storage, in the same location. This new and customised offering enables higher throughputs, lower inventory, faster refills through lead-time reduction and transport cost optimisations for its customers, among other benefits.
- ❑ **Invest further in infrastructure and expand its network:** FSL plans to continue to invest in enhancing infrastructure to enable it to respond quickly to its customers' changing needs, thereby continually improving the competitiveness of its supply chain solutions. It intends to increase capacity in its existing distribution centres in order to increase its volume handling capability as well as identify certain new locations to establish additional distribution centres.
- ❑ **Explore inorganic growth opportunities:** FSL may pursue commercially sustainable opportunities to invest in strategically located logistics facilities and technologies that complement its expansion goals and meet its customers' increasing demands and requirements. It may also pursue opportunities to acquire other logistics businesses in India (i) that allows it to enhance its scale and market position; (ii) that provide it with a platform to extend its reach to new geographic markets within India; and (iii) that add new services complementary to its service offerings or that allow it to enter strategic businesses to capture additional revenue opportunities from its existing customer base.
- ❑ **Continue to improve operating efficiencies and implement technological and process enhancements:** FSL intends to continue to adopt new infrastructure, in order to increase its operating efficiency and reliability. Examples of new technology and automation processes that it intends to introduce include a high-speed retrieval system and shuttle crane in its distribution centres, which is intended to increase its sorting capacity.

Source: Red Herring Prospectus, Destimoney research



# Consolidated Summary Financials

## Income Statement

₹ mn	Sept' FY17	FY17	FY16	FY15
Total Income	3,574	5,612	5,199	4,080
Operating Expense	3,012	4,869	4,499	3,440
<b>EBIDTA</b>	<b>562</b>	<b>743</b>	<b>699</b>	<b>639</b>
Depreciation	102	191	207	195
Other Income	78	158	86	28
Finance Costs	43	128	133	103
<b>PBT</b>	<b>494</b>	<b>582</b>	<b>446</b>	<b>369</b>
Tax	161	124	152	119
<b>PAT(Before exceptional items)</b>	<b>333</b>	<b>458</b>	<b>294</b>	<b>249</b>
Less : Exceptional items	-	-	-	3
<b>Net Profit</b>	<b>333</b>	<b>458</b>	<b>294</b>	<b>247</b>

₹ mn	June' FY17	FY17	FY16	FY15
EBIDTA Margin	15.4%	12.9%	13.2%	15.6%
Net Margin	9.1%	7.9%	5.6%	6.0%
ROE	10.2%	15.6%	11.9%	11.3%
ROCE	15.7%	22.0%	23.2%	23.6%

## Balance Sheet

₹ mn	Sept' FY17	FY17	FY16	FY15
<b>Liabilities</b>				
Share capital	391	391	391	391
Reserves and surplus	2,869	2,537	2,081	1,786
Minority interest	-	-	-	-
Long-Term Borrowings	276	735	443	137
Deferred tax liabilities(Net)	108	101	112	89
Other Non-Current Financial Liabilities	17	20	20	16
Long term provisions	30	26	19	16
Short term borrowings	521	-	360	383
Trade payables	1,063	978	1,083	814
Other Current Financial Liabilities	255	199	169	212
Other current liabilities	128	107	156	26
Short term provisions	98	1	3	3
<b>Total Liabilities</b>	<b>5,757</b>	<b>5,095</b>	<b>4,837</b>	<b>3,874</b>
<b>Assets</b>				
<b>Net Block</b>	<b>2,075</b>	<b>1,288</b>	<b>1,371</b>	<b>1,462</b>
Intangible assets	9	10	13	28
Capital work in progress	4	698	18	13
Non current Investments	100	-	0	0
Other Financial Assets	227	227	251	152
Other Non- Current Asset	-	-	0	0
Income Tax Assets(Net)	-	9	89	79
Current Investments	-	-	-	-
Trade receivables	2,502	2,167	2,211	1,819
Cash & bank balances	638	467	15	21
Bank Bal. other than Cash and cash equi.	3	3	5	4
Other Financial Assets	54	61	789	222
Other Current Assets	144	166	74	74
<b>Total Assets</b>	<b>5,757</b>	<b>5,095</b>	<b>4,837</b>	<b>3,874</b>

Source: Red Herring Prospectus, Destimoney research

## Peer Comparison

Performance Ratios	VRL Logi.	Navkar Corp.	Allcargo Logi.	Transport Corp.	Mahindra Logi.	FSCSL
EBITDA Margin (%)	12.49	40.6	9.23	8.97	3.21	12.9
PAT Margin (%)	3.91	23.08	4.19	3.39	1.72	7.9
RONW (%)	13.36	6.09	13.26	10.81	13.07	15.6
D/E (x)	0.34	0.35	0.33	0.65	0.08	0.24
P/E (x)	40.29	29.4	17.89	22.21	65.5	58.1
P/B (x)	5.25	1.74	2.31	2.77	8.6	8.2

Source: Red Herring Prospectus, Destimoney research

# Key Risks

- ❑ The Future Entities are the key customers which account for a significant portion (69.7%) of its revenue. Any failure to maintain the relationship with these customers will have a material adverse effect on financial performance and results of operations.
- ❑ The company operates in highly competitive industry with rivalry from a number of international and domestic third-party logistics companies, which may adversely affect the company's market position and business
- ❑ The trend toward outsourcing of supply chain management activities, throughout India or within specific sectors, may change, thereby reducing demand for the company's services
- ❑ The performance of the express logistics and temperature-controlled businesses may continue to decline
- ❑ All of the facilities and most of the vehicles used for transportation of goods are leased pursuant to long term leases or leave and license agreements, which FSCSL may be unable to renew on satisfactory terms, or at all, or which may limit its flexibility to seek new rental agreements or terms

Source: Red Herring Prospectus, Destimoney research

# Destimoney Securities Private Limited

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