



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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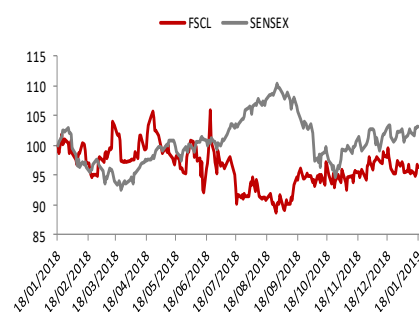
### Not Rated

Current Price	647
52 Week Range	750/596

### Key Share Data

Market Cap (Rs.bn)	25.91
Market Cap (US\$ mn)	364.09
No of o/s shares (mn)	40.05
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos (in'000)	20
BSE Code	540798
NSE Code	FSC
Bloomberg	FSCSL IN

### Price performance



### % Shareholding

	Dec-18	Sep-18
Promoters	52.47	52.47
Others	47.53	47.53
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Future Supply Chain Solutions Ltd.

**Rs 9,100bn Opportunity growing at 11%:** Total Logistics market size in India is Rs 9,100bn of which Contract logistics is at Rs 110bn (relevant to FSCL) expected to grow at CAGR of 15-16% over FY17-22. Future supply chain is currently at Rs 5.04bn.

**FSCL to increase its space more than 2x by FY20:** FSCL contract logistics business contributes 66% of H1FY19 Revenues (70% warehouse and 30% transportation). Company targets addition of 3mn sqft each year for FY19E and FY20E. From 4.58 mn sqft in FY18 FSCL reached 6.40 mn sqft adding 1.82mn sqft in H1FY19 which is in mid-way to achieve the target of 3mn sqft for the year. FSCL has an asset light business model where in the warehouses will be developed on lease model and total capex each year is Rs2bn. Other than this FSCL has 129 branches with 14 Network Hub; 832 containerized vehicles to support its 2 main business segment of contract logistics and Express logistics (15% of H1FY19 Revenues).

**FSCL to have 38 integrated food distribution centers operational in 3-4 years:** With the aim to serve 10,000 small stores and 15,000 aadhaar super market stores as a distribution channel in rural India. FSCL is of setting up integrated food distribution is to create a food grid that will cater to food and FMCG business under "India Food grid project" and service them in the radius of 200-225km. Of 38 centers 5 are in operation and total CAPEX for these 38 centers is going to be Rs. 10bn. FSCL being part of future group is as of now serving only to its parent company via these 5 centers and also looking for further expansion in Non-future group.

**Strong financials:** FSCL being an asset light company recorded ROE & ROCE of 14% and 19% respectively for FY18. Free cash flow generated in FY18 stood at Rs. 693mn. Between FY13-FY18 topline has grown at CAGR of ~18%, bottom-line at CAGR of ~70% and margins at ~36% CAGR moved from 6.8% in FY13 to 14.2% in FY18. With increase in scale of operations on account of increase in warehouse space we believe these ratios will improve.

**Rise in capacity addition for warehouse business and underutilization for initial period would lead to dip in gross margins:** Revenue has grown ~48% y-o-y in H1FY19, which gives highest GM (compared to other business), at ~35%. Every warehouse takes on an average 1.5-2 years to breakeven, with huge expansion in warehouse further this business would take a margin dip of 100-150bps impacting overall business with a downgrade of 90-100bps in GM.

### FINANCIALS (in mn)

Year	Sales	% growth	EBITDA	EBITDA %	PAT	NPM	EPS	ROE	ROCE
FY15	4,079.63	23%	639.45	15.7%	246.62	6.00%	6.30	11%	16%
FY16	5,198.70	27%	699.50	13.5%	294.37	5.57%	7.52	12%	15%
FY17	5,611.83	8%	742.75	13.2%	457.47	7.93%	11.69	16%	15%
FY18	7,936.59	41%	1127.02	14.2%	589.07	7.31%	14.71	14%	19%



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**Longstanding relationship with Future entities to support 30% CAGR over 3-5 years:** For FSCL Future group: Non-future group ratio is 60:40 approximately and would maintain the same going ahead. Future group's dependency on FSCL carters to 1/3rd of entire future groups logistics spend, which gives FSCL huge space to grow in its parent company. Of 40% in Non-future group business, top 20 clients contribute 25% revenue which includes like Pepperfry, Haldiram, myntra and etc. Hence, ~70 of business is from long-term contracts of 3-5 years.

**Customer stickiness to support growth in contract logistics (66% of H1FY19 Revenues):** FSCL takes minimum 6-12 months study before taking any client to understand the business process and its cycle. Post that company takes a warehouse on lease at cost of ~Rs700-800 per sqft (~2-3lac sqft size of each warehouse). Company's current leases or leave-and-license agreements are for terms ranging from 11 months to 15 years with lock-in periods typically between one and nine years. For transportation business company has a capacity of 832 fleets for Express logistics (15% of H1FY19 Revenues) and contract logistics, which is mainly leased out and diesel prices are pass through.

**Other business to grow in-line with industry:** Express logistics has a 3PL model where company carters mainly LTL services, which gives margin of ~25% and is expected to grow in line with industry. Newly acquired company Vulcan (12% of H1FY19 Revenues) is focused on e-commerce as it was a part of Snapdeal, would now support future group to grow in e-commerce platform. Currently it is loss making at EBITDA level. It also has accumulated losses of Rs 2bn for which the company will take tax benefits this year and targets to breakeven by FY20. Temperature Controlled business (3% of H1FY19 Revenue/4% GM) is been served with 4 warehouses till H1FY19.

**GST and Infra Status key benefits for growth:** Introduction of GST was a blessing for logistics sector that lead to a shift from unorganized to organized and consolidation of go-downs to large warehouses. As a result efficient inventory management, reduced congestion, improved productivity, and reduction in average handling cost would occur.

**Valuation:** FSCL is expected to grow at a CAGR of 30%+ over next few years with the proportion of Future group: Non-future group at 60:40 approx. At CMP of Rs 647 FSCL trades at 27x its FY19e EPS of Rs 23.90 and 20x its FY20e EPS of Rs 32.80 (as per Bloomberg estimates). We are currently working on detailed projections and would rate post our workings.



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