

**BUY**

TP: Rs 715 | ▲ 35%

**FUTURE SUPPLY CHAIN SOLUTIONS**

Logistics

20 September 2019

**Minority stake sale to strategic investor**

**Future Supply Chain (FSCSL) today announced plans to sell a 22% minority stake to Nippon Express, a Japanese logistics company. Key features of the transaction are outlined below.**

- Nippon Express Co Ltd (Nippon), acting through its subsidiary Nippon Express (South Asia & Oceania) Pte Ltd, has agreed to acquire a 22% minority stake in FSCSL, through a combination of fresh share issuance and secondary purchase. The transaction is subject to requisite shareholder and regulatory approvals.
- FSCSL will issue 3.8mn fresh shares at Rs 664/sh (22% premium over current market price) to Nippon, amounting to 8.6% of diluted share capital, for an estimated consideration of Rs 2.5bn. Nippon will acquire a further 14.6% (pre-dilution share capital) from an institutional investor, taking its shareholding to 22% on a fully diluted basis.
- Nippon is a leading global logistics company headquartered in Japan, with a presence across various logistics segments, including multi-modal transportation, warehousing, third-party logistics and railways. It has been present in India since 2007, focusing on international freight forwarding. As of FY19, the company had aggregate revenue of US\$ 19.3bn.
- FSCSL and Nippon plan to enter into a business collaboration, leveraging the latter's competency across several key markets. FSCSL would also explore business opportunities with Nippon's Japanese and MNC clientele. For its part, Nippon expects to expand its footprint in India.
- We view the continuing interest from global logistics players in the Indian market as a positive. Several multinational companies have bolstered their presence in India in recent years, including CJ Express of Korea which acquired a 50% stake in DARCL couple of years ago.
- In our opinion, a successful deal would be a positive development for FSCSL. The transaction is likely to be EPS-accretive in FY21 and should improve the company's debt-equity ratio. We also expect FSCSL to benefit from Nippon's global pedigree and expertise.
- We maintain our earnings estimates pending further developments and reiterate our BUY rating on the company with a Jun'20 TP of Rs 715.

**Sayan Das Sharma**

research@bobcaps.in

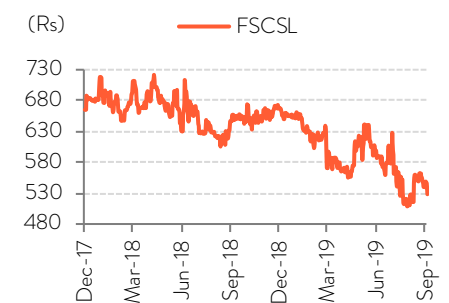
Ticker/Price	FSCSL IN/Rs 529
Market cap	US\$ 297.8mn
Shares o/s	40mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 711/Rs 490
Promoter/FPI/DII	52%/5%/19%

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	14,325	17,863	21,276
EBITDA (Rs mn)	1,626	2,477	3,027
Adj. net profit (Rs mn)	933	1,136	1,381
Adj. EPS (Rs)	23.3	28.3	34.4
Adj. EPS growth (%)	(3.2)	21.7	21.5
Adj. ROAE (%)	14.5	15.3	16.0
Adj. P/E (x)	22.7	18.7	15.4
EV/EBITDA (x)	13.6	9.2	7.7

Source: Company, BOBCAPS Research

**STOCK PERFORMANCE**

Source: NSE

[Click here for our last detailed report](#)

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

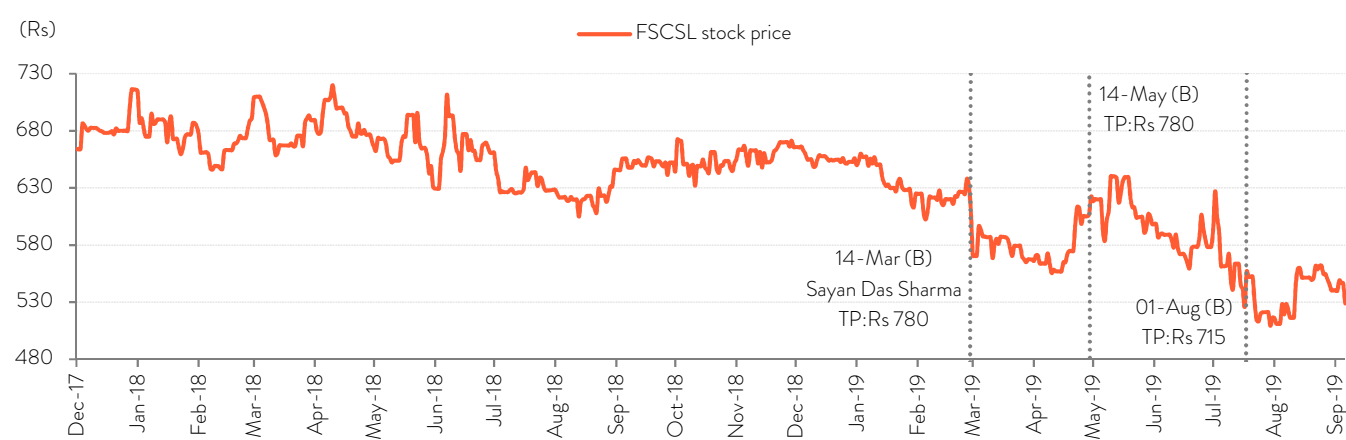
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: FUTURE SUPPLY CHAIN SOLUTIONS (FSCSL IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

### Rating distribution

As of 31 August 2019, out of 77 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 47 have BUY ratings, 14 are rated ADD, 7 are rated REDUCE and 9 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance, wealth management and portfolio management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.